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Fusion Reports Q2 2015 Results

Reissued

NEW YORK, NY -- (Marketwired) -- 08/13/15 -- Fusion(NASDAQ: FSNN), a leading provider of cloud services, today announced its financial results for the second quarter ended June 30, 2015.

Second Quarter Highlights

- Consolidated sales of \$25.1 million, up approximately 8% year over year
- Ended the quarter with \$217 thousand in monthly recurring revenue ("MRR") in backlog, representing \$2.6 million in total contract value
- Signed a total of \$5.2 million in new contract value during the quarter
- Consolidated gross margin of 44.9%, unchanged as compared to the same three month period a year ago
- Adjusted EBITDA (a non-GAAP measure) of \$2.2 million versus \$3.0 million during Q2 2014, reflecting Fusion's ongoing investment in its sales distribution and service delivery platforms
- Identified and have begun to implement over \$3 million in annualized cost savings, which are expected to improve the Company's profitability net of capital re-deployed into the business to support key growth initiatives
- Ended the quarter with approximately 10,820 customers, an ARPU of \$498, and an average churn of 2.0%, which was negatively impacted by the loss of two large customers due to bankruptcy; adjusted for this, average churn during the second quarter 2015 would have been 1.2%

Matthew Rosen, Fusion's Chief Executive Officer, commented, "Fusion delivered 8% year-over-year revenue growth in the second quarter, as we continue to position the Company to maximize its long-term growth potential. We recognize that scale is paramount in creating value in the cloud services industry, and our careful analysis of today's market strongly indicates that our returns on growing our customer base, revenues, and cash flow through targeted acquisitions are far greater than through purely organic means.

"Our strategic and capital deployment plans are therefore designed to enable Fusion to gain significant scale through disciplined, targeted acquisitions, while we continue to invest in our organic sales and marketing efforts," Rosen continued. "We remain focused on strengthening our business platform and our balance sheet to ensure they are aligned with our main objective of achieving greater scale."

Don Hutchins, Fusion's President and Chief Operating Officer, said, "We are prudently balancing our investments in our sales infrastructure and service delivery platform with our efforts to identify and implement new cost savings opportunities. By the end of June, we had identified approximately \$3 million in targeted savings, and have begun to execute on many of these cost reduction plans. We remain confident that the majority of these plans will be in place by year end, thereby improving Fusion's cash flow generation while also enabling us to reinvest in our business."

Second Quarter Results

Fusion reported consolidated revenues of \$25.1 million for the quarter ended June 30, 2015, which represents an increase of \$2.0 million or 8% over the \$23.1 million reported for the second quarter of 2014. Revenues in the Company's Business Services segment totaled \$16.0 million during the second quarter of 2015, as compared to \$15.6 million in the second quarter of 2014, an increase of approximately 3%. Revenues from the Business Services segment during the second quarter of 2015 include our acquisition of PingTone, which closed on October 31, 2014. Revenues in the Company's Carrier Services segment totaled \$9.0 million, as compared to \$7.5 million in the second quarter of 2014, an increase of 20%. This increase was primarily due to an increase in the number of minutes of traffic carried during the quarter, partially offset by lower market rates for the termination of voice traffic.

Fusion's consolidated gross margin during the second quarter of 2015 was 44.9%, unchanged from the year-ago period, as improvement in gross margin in both segments was offset by a shift in revenue mix. Business Services, which comprised approximately 64% of the Company's total revenues for the quarter, had a gross margin of 63.6% for the second quarter of 2015, an increase of 220 basis points as compared to 61.4% in the second quarter of 2014. Carrier Services' gross margin for the quarter ended June 30, 2015 was 11.6%, as compared to 10.6% in the year-ago period.

The Company reported a GAAP net loss of \$712 thousand, or \$0.30 per share on a fully diluted basis for the second

quarter of 2015, which includes a \$2.5 million non-cash gain from the change in the fair value of our derivative liabilities. This compares to a GAAP net loss of \$2.5 million, or \$0.39 per share for the second quarter of 2014. The Company reported adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and specific non-recurring and non-cash adjustments), a non-GAAP metric, of \$2.2 million during the second quarter of 2015, a decrease of approximately \$0.8 million compared to the second quarter 2014 adjusted EBITDA of \$3.0 million on higher Selling, General and Administrative expenses related to investments to support Fusion's growth objectives.

At June 30, 2015, the Company had approximately 10,820 business customers with an Average Revenue per User (ARPU) of \$498. Average churn during the second quarter of 2015 was 2.0%, which was negatively impacted by the loss of two large customers together representing over \$1 million in annual revenues due to their bankruptcy during the quarter. Adjusting for these losses, average churn for the quarter would have been 1.2%, consistent with the Company's historic churn range of 1.0% to 1.2%.

At June 30, 2015, the Company's consolidated cash balance was \$4.4 million, down from \$6.4 million at December 31, 2014. Working capital at June 30, 2015 was a negative \$0.5 million, as compared to positive working capital of \$2.1 million at December 31, 2014. Stockholders' equity decreased by \$4.5 million to \$8.8 million at June 30, 2015, as compared to approximately \$13.3 million at December 31, 2014.

Use of Non-GAAP Financial Measurements:

The Company believes that EBITDA (earnings before interest, taxes, depreciation and amortization) is useful to investors because it is commonly used in the cloud communications industry to evaluate companies on the basis of operating performance and leverage. Adjusted EBITDA provides an adjusted view of EBITDA that takes into account certain significant non-recurring transactions, if any, such as impairment losses and expenses associated with pending acquisitions, which vary significantly between periods and are not recurring in nature, as well as certain recurring non-cash charges such as changes in fair value of the Company's derivative liabilities and stock-based compensation. The Company also believes that Adjusted EBITDA provides investors with a measure of the Company's operational and financial progress that corresponds with the measurements used by management as a basis for allocating resources and making other operating decisions. Although the Company uses Adjusted EBITDA as one of several financial measures to assess its operating performance, its use is limited as it excludes certain significant operating expenses. EBITDA and Adjusted EBITDA are not intended to represent cash flows for the periods presented, nor have they been presented as an alternative to operating income or as an indicator of operating performance and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In accordance with SEC Regulation G, the non-GAAP measurements in this press release have been reconciled to the nearest GAAP measurement, which can be viewed under the heading "Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA", immediately following the Consolidated Balance Sheets included in this press release.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

**Consolidated Interim Statements of Operations
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	\$ 25,063,695	\$ 23,140,973	\$ 50,326,733	\$ 46,045,802
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	13,813,616	12,747,441	27,826,308	24,976,473
Gross profit	11,250,080	10,393,532	22,500,426	21,069,329
Depreciation and amortization	3,039,758	2,597,978	6,043,205	5,165,469

Selling, general and administrative expenses (including stock-based compensation of approximately \$116,000 and \$73,000 for the three months ended June 30, 2015 and 2014, respectively, and approximately \$239,000 and \$142,000 for the six months ended June 30, 2015 and 2014, respectively)	9,857,721	7,825,494	19,594,015	15,644,891
Total operating expenses	<u>12,897,478</u>	<u>10,423,472</u>	<u>25,637,219</u>	<u>20,810,360</u>
Operating (loss) income	<u>(1,647,399)</u>	<u>(29,940)</u>	<u>(3,136,794)</u>	<u>258,969</u>
Other (expenses) income:				
Interest expense	(1,608,709)	(1,597,215)	(3,215,552)	(2,991,761)
Gain (loss) on change in fair value of derivative liability	2,510,950	(690,878)	1,306,148	1,919,069
Other income (expense), net	32,750	719	70,069	(40,355)
Total other income (expenses)	<u>934,991</u>	<u>(2,287,374)</u>	<u>(1,839,335)</u>	<u>(1,113,047)</u>
Loss before income taxes	<u>(712,408)</u>	<u>(2,317,314)</u>	<u>(4,976,129)</u>	<u>(854,078)</u>
Provision for income taxes	-	151,583	-	173,078
Net loss	<u>(712,408)</u>	<u>(2,468,897)</u>	<u>(4,976,129)</u>	<u>(1,027,156)</u>
Preferred stock dividends in arrears	(388,098)	(443,194)	(807,086)	(885,282)
Net loss attributable to common stockholders	<u>\$ (1,100,506)</u>	<u>(2,912,091)</u>	<u>\$ (5,783,215)</u>	<u>\$ (1,912,438)</u>
Basic and diluted loss per common share	<u>\$ (0.30)</u>	<u>(0.39)</u>	<u>\$ (0.79)</u>	<u>\$ (0.38)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>8,461,794</u>	<u>6,876,617</u>	<u>8,311,499</u>	<u>6,842,532</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
	<i>(unaudited)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,417,858	\$ 6,444,683
Accounts receivable, net of allowance for doubtful accounts of approximately \$452,098 and \$245,000, respectively	7,167,733	7,087,599
Prepaid expenses and other current assets	<u>1,384,088</u>	<u>927,772</u>
Total current assets	<u>\$ 12,969,679</u>	<u>\$ 14,460,054</u>

Property and equipment, net	14,048,966	13,478,912
Other assets:		
Security deposits	648,998	648,998
Restricted cash	1,164,810	1,164,381
Goodwill	10,397,460	10,397,460
Intangible assets, net	28,728,209	32,432,416
Other assets	1,013,675	1,165,273
Total other assets	<u>41,953,152</u>	<u>45,808,528</u>
TOTAL ASSETS	<u>\$ 68,971,797</u>	<u>\$ 73,747,494</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable - non-related parties	\$ 1,225,432	\$ 1,225,000
Equipment financing obligations	904,161	662,131
Accounts payable and accrued expenses	11,322,088	10,471,514
Total current liabilities	<u>13,451,681</u>	<u>12,358,645</u>

Long-term liabilities:

Notes payable - non-related parties, net of discount	41,035,730	41,263,934
Notes payable - related parties	1,320,227	1,292,878
Equipment financing obligations	1,862,724	1,702,704
Derivative liabilities	2,533,421	3,839,569
Total liabilities	<u>60,203,783</u>	<u>60,457,730</u>

Commitments and contingencies

Stockholders' equity (deficit):

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 24,210 and 26,793 shares issued and outstanding	242	268
Common stock, \$0.01 par value, 50,000,000 shares authorized, 8,224,482 and 7,345,028 shares issued and outstanding	82,244	73,449
Capital in excess of par value	175,965,069	175,519,459
Accumulated deficit	<u>(167,279,541)</u>	<u>(162,303,412)</u>
Total stockholders' equity	<u>8,768,014</u>	<u>13,289,764</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 68,971,797</u>	<u>\$ 73,747,494</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA (Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2015	2014	2015	2014
Net (loss)	\$ (712,408)	\$ (2,468,897)	\$ (4,976,129)	\$ (1,027,156)
Interest expense and other financing costs	1,623,115	1,633,049	3,229,958	3,085,798
Provision for income taxes	-	151,583	-	173,078
Depreciation and amortization	3,039,758	2,597,978	6,043,205	5,165,469
EBITDA	<u>3,950,465</u>	<u>1,913,713</u>	<u>4,297,034</u>	<u>7,397,189</u>
Acquisition transaction expenses	337,532	34,872	1,044,125	146,748
Change in fair value of derivative liability	(2,510,950)	690,878	(1,306,148)	(1,919,069)
(Gain) loss on disposal of property and equipment	(1,169)	84,373	(1,390)	84,373
Recapitalization expenses	-	75,350	-	75,350

Non-recurring	-	163,069	28,846	163,069
Employee Related Expenses				
Credits for Outage Services	121,176	-	121,176	-
Stock based compensation expense	285,662	81,115	504,529	179,682
Adjusted EBITDA	\$ 2,182,717	\$ 3,043,370	\$ 4,688,173	\$ 6,127,342

Forward Looking Statements

Statements in this press release that are not purely historical facts, including statements regarding Fusion's beliefs, expectations, intentions or strategies for the future, may be "forward-looking statements" under the Private Securities Litigation Reform Act of 1996. Such statements consist of any statement other than a recitation of historical fact and may sometimes be identified by the use of forward-looking terminology such as "may", "expect", "anticipate", "intend", "estimate" or "continue" or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. Important risks regarding the Company's business include the Company's ability to raise additional capital to execute its comprehensive business strategy; the integration of businesses and assets following an acquisition; the Company's ability to comply with covenants included in its senior debt agreements; competitors with broader product lines and greater resources; emergence into new markets; natural disasters, acts of war, terrorism or other events beyond the Company's control; and other factors identified by Fusion from time to time in its filings with the Securities and Exchange Commission, which are available through <http://www.sec.gov>. However, the reader is cautioned that Fusion's future performance could also be affected by risks and uncertainties not enumerated above.

About Fusion

Fusion, a leading provider of integrated cloud solutions to small, medium, and large businesses, is the industry's single source for the cloud. Fusion's advanced, proprietary cloud service platform enables the integration of leading edge solutions in the cloud, including cloud communications, cloud connectivity, and cloud computing. Fusion's innovative, yet proven cloud solutions lower our customers' cost of ownership, and deliver new levels of security, flexibility, scalability, and speed of deployment. For more information, please visit www.fusionconnect.com.

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