

November 16, 2015

Fusion Reports Third Quarter 2015 Results

Business Services Division Achieves Sequential Organic Growth

NEW YORK, NY -- (Marketwired) -- 11/16/15 -- Fusion(NASDAQ: FSNN), a leading cloud services provider, today announced its financial results for the third quarter ended September 30, 2015.

Third Quarter Highlights

- Consolidated revenues increased 9% year over year to \$24.5 million
- Business Services segment revenue increased 7% year over year to \$16.3 million, and demonstrated nearly 2% organic growth over the second quarter of 2015
- Ended the quarter with \$199 thousand in Business Services monthly recurring revenue (MRR) in backlog, representing \$7.0 million in total contract value
- Signed a total of \$5.1 million in new contract value bookings during the quarter
- Gross margin for the Business Services segment was 63.8%, an increase of 180 basis points versus the third quarter of 2014
- Completed a refinancing of the Company's debt and established a new \$40 million senior secured bank credit facility with Opus Bank on August 28, significantly reducing the Company's cost of debt and providing access to growth capital
- Simplified Fusion's financial statements and capital structure by significantly reducing the impact of the derivative liability (a non-cash item) on the Company's financial statements through the elimination of all lender warrants issued under the Company's original 2012 credit facility
- Completed the acquisition of RootAxxess, LLC, on September 30, accelerating Fusion's expansion in the Cloud Infrastructure-as-a-Service (IaaS) market
- Adjusted EBITDA was \$1.9 million, compared to \$2.4 million in the same quarter of 2014, as the Company continued to invest in its sales, marketing and service delivery platform to support its growth objectives
- Ended the quarter with approximately 11,000 customers, while ARPU for the quarter was \$501 and churn for the quarter was 1.0%

Matthew Rosen, Fusion's Chief Executive Officer, commented, "Fusion's third quarter represented another important step forward in strengthening and expanding the Company's position as the single-source cloud services provider for thousands of businesses. I am especially pleased to report that Fusion's Business Services segment delivered nearly 2% sequential organic revenue growth during the quarter. This important milestone demonstrates Fusion's commitment to serving our customers with innovative, yet proven cloud solutions and complements our acquisition-led growth strategy.

"Fusion demonstrated solid progress against the three near-term strategic objectives we outlined at the end of the second quarter: achieving greater scale through accretive acquisitions complemented by organic growth; optimizing our capital structure primarily by lowering the interest rate on our debt; and leveraging our growing scale to drive cost efficiencies. Notably, our refinancing in late August has reduced our annualized interest expense by approximately \$1 million, and our acquisition of RootAxxess at the end of the quarter extends and enhances our service offerings in cloud computing. We plan to maintain this strong momentum during the fourth quarter and into next year as we continue to build upon Fusion's highly efficient and scalable cloud services business," Mr. Rosen continued.

Don Hutchins, Fusion's President and Chief Operating Officer, said, "During the third quarter, we began to see the initial benefits from our investment in our sales and support platforms, including several notable new customer wins in the Education, Retail and Agriculture verticals. We remain committed to balancing these prudent investments with a range of cost efficiency measures, the savings from which we now estimate at approximately \$3.1 million per year. We expect to realize more of these efficiencies in the coming quarters, especially since the consolidation of our data center at 75 Broad Street in New York into existing locations was completed on October 31, which alone yields over \$800,000 in annual cost savings to the Company. With our growing scale, we will continue to take advantage of the leverage in our operations to identify and implement additional cost savings in the future."

Third Quarter Results

Fusion reported consolidated revenues of \$24.5 million for the quarter ended September 30, 2015, which represents an increase of \$2.0 million, or 9%, over the \$22.5 million reported for the third quarter of 2014. Revenues from the

Business Services segment totaled \$16.3 million during the third quarter of 2015, as compared to \$15.2 million in the third quarter of 2014, an increase of 7%. Revenues from the Business Services segment during the third quarter of 2015 include our acquisition of PingTone Communications, Inc., which closed on October 31, 2014. Revenues from the Carrier Services segment totaled \$8.3 million, as compared to \$7.3 million in the third quarter of 2014, an increase of 14%. The increase was primarily due to increases in the number of minutes of traffic carried during the quarter and in the blended per minute rates of traffic terminated.

Fusion's consolidated gross margin during the third quarter of 2015 was 44.8%, versus 45.2% for the year-ago period, as an improvement in gross margin in the Business Services segment was offset by a decline in gross margin in the Carrier Services segment and by a shift in revenue mix. Business Services, which comprised approximately 66% of the Company's total revenues for the quarter, had a gross margin of 63.8% in the third quarter of 2015, an increase of 180 basis points as compared to 62.0% in the year-ago period. Carrier Services had a gross margin of 7.6% in the third quarter of 2015, compared to 10.0% in the year-ago period.

For the third quarter of 2015, the Company reported a GAAP net loss of \$4.9 million, as compared to net income of \$0.3 million for the third quarter of 2014. Loss per share for the third quarter of 2015 was \$0.72 on a fully diluted basis, as compared to a loss per share of \$0.19 on a fully diluted basis in the year-ago period. The net loss was primarily the result of a loss on the extinguishment of debt of \$2.7 million and a decrease in the gain on the change in the fair value of our derivative liability of approximately \$1.2 million.

The Company reported Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and specific non-recurring and non-cash adjustments), a non-GAAP metric, of \$1.9 million for the third quarter of 2015, as compared to Adjusted EBITDA of \$2.4 million for the third quarter 2014, primarily on higher Selling, General and Administrative expenses related to investments to support Fusion's growth objectives.

At September 30, 2015, the Company had approximately 11,000 business customers with an Average Revenue per User (ARPU) of \$501. Average churn during the third quarter of 2015 was 1.0%, consistent with the Company's historical churn range of 1.0% to 1.2%.

Nine Months Results

Fusion reported consolidated revenues of \$74.9 million for the nine months ended September 30, 2015, representing an increase of \$6.4 million or 9% over the \$68.5 million reported for the year-ago period. The Business Services segment posted revenues of \$49.0 million for the first nine months of 2015, as compared to \$46.6 million for the first nine months of 2014, an increase of approximately 5%. The Carrier Services segment posted revenues of \$25.8 million for the nine-month period, as compared to year-earlier revenues of \$21.9 million for the same period, an increase of 18%.

Fusion's consolidated gross margin during the first nine months of 2015 was 44.7% versus 45.6% during the year-ago period. Business Services had a gross margin of 63.7% in the first nine months of 2015, an increase of 170 basis points as compared to 62.0% in the first nine months of 2014. Carrier Services had a gross margin of 8.6% in the first nine months of 2015, compared to 10.8% in the year-ago period.

The Company reported a net loss of \$9.8 million, or \$1.52 per common share on a fully diluted basis, for the first nine months of 2015, as compared to a net loss of \$0.7 million, or \$0.57 per common share on a fully diluted basis, for the same period in 2014. The difference is primarily due an increase in Selling, General and Administrative expense of \$5.6 million, loss on extinguishment of debt of \$2.7 million, and Depreciation and Amortization expense of \$1.2 million.

For the nine months ended September 30, 2015, the Company reported Adjusted EBITDA of \$6.6 million, as compared to Adjusted EBITDA of \$8.5 million for the nine months ended September 30, 2014.

At September 30, 2015, the Company's consolidated cash balance was \$4.0 million, versus \$6.4 million at December 31, 2014. Negative working capital at September 30, 2015 was approximately \$0.7 million, as compared to positive working capital of \$2.1 million at December 31, 2014. Stockholders' equity was \$4.4 million at September 30, 2015, as compared to \$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)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 24,530,824	\$ 22,486,531	\$ 74,857,557	\$ 68,532,333
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	<u>13,533,647</u>	<u>12,312,188</u>	<u>41,359,955</u>	<u>37,288,661</u>
Gross profit	10,997,177	10,174,343	33,497,602	31,243,672
Depreciation and amortization	3,140,427	2,830,727	9,183,632	7,996,196
Selling, general and administrative expenses (including stock-based compensation of approximately \$154,000 and \$111,000 for the three months ended September 30, 2015 and 2014, respectively, and approximately \$393,000 and \$253,000 for the nine months ended September 30, 2015 and 2014, respectively)	<u>9,796,483</u>	<u>8,137,368</u>	<u>29,379,196</u>	<u>23,782,259</u>
Total operating expenses	<u>12,936,911</u>	<u>10,968,095</u>	<u>38,562,828</u>	<u>31,778,455</u>
Operating loss	<u>(1,939,734)</u>	<u>(793,752)</u>	<u>(5,065,226)</u>	<u>(534,783)</u>
Other (expenses) income:				
Interest expense	(1,434,734)	(1,442,508)	(4,650,286)	(4,434,269)
Gain on change in fair value of derivative liability	1,237,730	2,389,203	2,543,878	4,308,272
Loss on extinguishment of debt	(2,720,355)	-	(2,720,355)	-
Other (expense) income, net	(2,398)	9,639	56,369	(30,716)
Total other (expenses) income	<u>(2,919,757)</u>	<u>956,334</u>	<u>(4,770,394)</u>	<u>(156,713)</u>
(Loss) income before income taxes	(4,859,491)	162,582	(9,835,620)	(691,496)
(Benefit) provision for income taxes	-	(147,341)	-	25,737
Net (loss) income	(4,859,491)	309,923	(9,835,620)	(717,233)
Preferred stock dividends in arrears	(379,740)	(432,972)	(1,186,826)	(1,318,254)
Net loss attributable to common stockholders	<u>\$ (5,239,231)</u>	<u>\$ (123,049)</u>	<u>\$ (11,022,446)</u>	<u>\$ (2,035,487)</u>
Basic and diluted loss per common share	<u>\$ (0.72)</u>	<u>\$ (0.19)</u>	<u>\$ (1.52)</u>	<u>\$ (0.57)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>8,958,815</u>	<u>7,093,215</u>	<u>8,529,642</u>	<u>6,927,011</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2015	December 31, 2014
	<i>(unaudited)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,955,845	\$ 6,444,683
Accounts receivable, net of allowance for doubtful accounts of approximately \$395,410 and \$245,000, respectively	7,063,754	7,087,599
Prepaid expenses and other current assets	1,509,722	927,772
Total current assets	12,529,321	14,460,054
Property and equipment, net	14,018,560	13,478,912
Other assets:		
Security deposits	573,998	648,998
Restricted cash	164,381	1,164,381
Goodwill	10,496,650	10,397,460
Intangible assets, net	27,917,106	32,432,416
Other assets	1,197,454	1,165,273
Total other assets	40,349,589	45,808,528
TOTAL ASSETS	\$ 66,897,470	\$ 73,747,494
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - non-related parties	\$ 685,780	\$ 1,225,000
Due to RootAxxess seller	366,667	-
Equipment financing obligations	1,050,765	662,131
Accounts payable and accrued expenses	11,139,248	10,471,514
Total current liabilities	13,242,460	12,358,645
Long-term liabilities:		
Notes payable - non-related parties, net of discount	31,866,658	41,263,934
Due to RootAxxess seller	333,333	-
Notes payable - related parties	1,334,479	1,292,878
Indebtedness under revolving credit facility	12,500,000	-
Equipment financing obligations	2,262,418	1,702,704
Derivative liabilities	931,524	3,839,569
Total liabilities	62,470,872	60,457,730
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 24,166 and 26,793 shares issued and outstanding	242	268
Common stock, \$0.01 par value, 50,000,000 shares authorized, 9,090,614 and 7,345,028 shares issued and outstanding	90,906	73,449
Capital in excess of par value	176,474,482	175,519,459
Accumulated deficit	(172,139,032)	(162,303,412)
Total stockholders' equity	4,426,598	13,289,764
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 66,897,470	\$ 73,747,494

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net (loss) income	\$ (4,859,491)	\$ 309,923	\$ (9,835,620)	\$ (717,233)
Interest expense and other financing costs	3,141,848	1,445,957	6,371,806	4,531,755
(Provision) expense for income taxes	-	(147,341)	-	25,737
Depreciation and amortization	3,140,427	2,830,728	9,183,632	7,996,196
EBITDA	1,422,784	4,439,267	5,719,818	11,836,455
Acquisition transaction expenses	377,214	125,044	1,421,339	271,791
Change in fair value of derivative liability	(1,237,730)	(2,389,203)	(2,543,878)	(4,308,272)
(Gain) loss on disposal of property and equipment	3,892	37,887	2,502	122,261
Recapitalization expenses	-	7,500	-	82,850
Non-recurring employee related expenses	108,360	20,280	137,206	183,348
One-time regulatory expenses	-	43,490	-	43,490
Refinancing transaction costs	1,038,320	-	1,038,320	-
Other non-recurring items	-	-	121,176	-
Stock based compensation expense	153,915	119,602	658,445	299,284
Adjusted EBITDA	\$ 1,866,755	\$ 2,403,867	\$ 6,554,928	\$ 8,531,207

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.

In the event that there is any inconsistency between the information contained in this press release and the information set forth in the Fusion's Form 10-Q filed with the Securities and Exchange Commission, the information contained in the Form 10-Q governs.

About Fusion

Fusion is a leading provider of integrated cloud solutions to small, medium and large businesses. 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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Source: Fusion