

March 28, 2016

Fusion Reports Fourth Quarter and Full Year 2015 Results

NEW YORK, NY -- (Marketwired) -- 03/28/16 -- Fusion (NASDAQ: FSNN), a leading cloud services provider, today announced its financial results for the fourth quarter ended December 31, 2015.

Fourth Quarter 2015 Highlights

- Consolidated revenues were \$26.8 million, reflecting a 14% increase versus the prior year period
- Adjusted EBITDA (a non-GAAP measure) was \$1.6 million, compared to \$2.3 million in the year-ago quarter, as the Company continued to invest in its sales, marketing and service delivery platforms to support its growth objectives
- Ended the quarter with \$299 thousand in Business Services monthly recurring revenue (MRR) in backlog, an increase of approximately 50% from the third quarter of 2015, and representing \$10.5 million in total contract value, likewise up 50% sequentially
- Signed a total of \$7.1 million in new contract value bookings during the quarter, up from \$5.1 million during the third quarter of 2015
- Completed the acquisition of Fidelity on December 8, which added approximately 1,900 business customers and significantly expanded the Company's geographic reach in the Midwest
- Ended the quarter with 12,400 customers, an average monthly revenue per customer (ARPU) of \$544, and a churn rate of 0.7%
- Strengthened the Company's balance sheet through an offering of common shares priced at market on December 4, raising approximately \$6.0 million and reflecting additional commitments from several of Fusion's board members as well as its largest institutional shareholder
- Further reduced the Company's derivative liability by an additional 10% as a result of receiving a waiver from certain warrant holders

Full Year 2015 Highlights

- Consolidated revenues increased 11% year over year to \$101.7 million
- Gross margin for the Business Services segment during 2015 was 63.5%, an increase of 110 basis points versus 62.4% for the full year 2014
- Adjusted EBITDA was \$8.2 million, compared to \$10.8 million in 2014
- Completed a refinancing of corporate debt that lowered the Company's blended interest rate from 11.2% to 8% and established a new \$40 million senior secured bank credit facility
- Completed two cloud services acquisitions during the year to expand Fusion's cloud platform and build scale, RootAccess and Fidelity

Matthew Rosen, Fusion's Chief Executive Officer, commented, "2015 was another dynamic year of revenue growth for Fusion as we continue to execute on our strategic plan to build scale in our Cloud Services business. Our investments in our sales, marketing and service delivery platforms, along with our acquisitions of Fidelity and RootAccess, have significantly strengthened Fusion's position in the marketplace and enhanced our ability to create value for shareholders. We remain focused on complementing our acquisition-led growth strategy with ongoing initiatives to drive organic growth. Fusion is committed to enhancing our direct, partner and inside sales teams as well as our customer service organization in order to reach an even broader range of business customers in 2016 and beyond. We are also investing in product development to further expand our cutting-edge suite of Cloud Services solutions to ensure that Fusion remains the single source for the Cloud for enterprises of all sizes."

Don Hutchins, Fusion's President and Chief Operating Officer, said, "We believe our value proposition as the single source for everything a business needs to move to the cloud is resonating with the market. We have begun to see the results of our strategy and our positioning as the industry's single source in our sales backlog, which grew 50% sequentially during the December quarter, representing \$10.5 million in contracted future revenues. While our sales-to-revenue conversion cycles have expanded with our emphasis on larger customers requiring more complex implementations, we have built on those sales trends during the first quarter of 2016. We expect this momentum to continue, consistent with the growing trend for businesses to favor service providers like Fusion that can offer all of the services needed to move to the cloud."

Fourth Quarter Results

For the quarter ended December 31, 2015, Fusion reported consolidated revenues of \$26.8 million, an increase of \$3.3 million, or 14%, from the fourth quarter of 2014. Revenues from Fusion's Business Services segment totaled \$17.1 million in the fourth quarter of 2015, up \$0.8 million, or 5%, from the prior-year period. Revenues from the Business Services segment during the fourth quarter of 2015 include our acquisitions of Fidelity on December 8, 2015 and the RootAccess Assets on September 30, 2015. Revenues from Fusion's Carrier Services segment totaled \$9.8 million in the fourth quarter of 2015, up \$2.5 million, or 35%, from the prior-year period, primarily due to an increase of 31% in the volume of traffic terminated over Fusion's network and an increase of 3% in the blended rate per minute of traffic terminated.

Fusion's consolidated gross margin decreased to 42.7% during the fourth quarter of 2015, as compared to 47.7% for the fourth quarter of 2014, mainly due to the greater mix of lower-margin Carrier Services revenue during the quarter, driven by an increase in the number of minutes of traffic carried during the quarter. The Business Services segment gross margin was 63.1% versus 63.8% in the prior-year period, while the Carrier Services segment reported gross margin of 7.2% for the fourth quarter of 2015 versus 11.3% in the fourth quarter of 2014.

GAAP net income attributable to common stockholders for the fourth quarter was \$1.2 million, as compared to net loss of \$2.3 million in the same quarter of 2014. Income per share for the fourth quarter of 2015 was \$0.12 on a fully diluted basis, as compared to a loss per share of \$0.34 on a fully diluted basis in the year-ago period. The net income was primarily the result of a tax benefit of approximately \$7.7 million offset by higher SG&A of \$2.2 million, depreciation and amortization expense of \$0.8 million, and a decrease of approximately \$1.5 million gain on the change in fair value of the Company's derivative liabilities.

Adjusted EBITDA for the fourth quarter of 2015 was \$1.6 million, as compared to Adjusted EBITDA of \$2.3 million in the fourth quarter of 2014, primarily as a result of higher Selling, General and Administrative expenses related to investments to support Fusion's growth objectives.

Full Year 2015 Results

For the year ended December 31, 2015, Fusion reported consolidated revenue of \$101.7 million, an increase of \$9.6 million, or 11%, from 2014. Revenues from Fusion's Business Services segment totaled \$66.2 million for 2015, up \$3.3 million, or 5%, from 2014. Substantially all of this increase is due to the inclusion of revenues from our acquisitions of Fidelity, the RootAccess Assets and PingTone. Revenues from Fusion's Carrier Services segment totaled \$35.5 million in 2015, up \$6.3 million or 22%, from full year 2014 mainly due to a 26% increase in the number of minutes transmitted over Fusion's network, offset by a 3% decrease in the blended rate per minute of traffic terminated.

Consolidated gross margin was 44.2% for 2015, as compared to 46.1% for 2014. The decrease is primarily the result of a greater mix of lower-margin Carrier Services revenue during the year, driven by a 26% increase in the volume of traffic terminated. This was partly offset by an increase in gross margin in the Business Services segment, which grew to 63.5% during 2015 versus 62.4% in the prior-year period. The Carrier Services segment reported gross margin of 8.2% for full year 2015 versus 10.9% in the prior-year period.

Net loss attributable to common stockholders for the year ended December 31, 2015 was \$9.8 million, or \$1.32 per share on a fully diluted basis, as compared to \$4.3 million, or \$0.92 per share on a fully diluted basis, for the year ended December 31, 2014. The increase in net loss is the result of higher SG&A of \$7.8 million and depreciation and amortization expense of \$2.0 million, loss on extinguishment of debt of \$2.7 million, and a decrease of approximately \$3.3 million gain on the change in the fair value of the derivative.

Adjusted EBITDA for the full year 2015 was \$8.2 million, as compared to Adjusted EBITDA of \$10.8 million in 2014.

At December 31, 2015 the Company had working capital and shareholders' equity of \$1.7 million and \$14.5 million, respectively, as compared to working capital of \$2.1 million and shareholders' equity of \$13.3 million at December 31, 2014. The Company's cash on hand at December 31, 2015 was \$7.5 million, as compared to \$6.4 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 Statements of Operations

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Revenues	\$ 26,836,959	\$ 23,520,267	\$ 101,694,516	\$ 92,052,600
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	15,364,166	12,309,712	56,724,121	49,598,373
Gross profit	<u>11,472,793</u>	<u>11,210,555</u>	<u>44,970,395</u>	<u>42,454,227</u>
Depreciation and amortization	3,792,349	3,008,687	12,975,981	11,004,884
Selling, general and administrative expenses (including stock-based compensation of approximately \$639,296 and \$371,758 for 2015 and 2014, respectively)	11,629,911	9,442,116	41,009,107	33,224,374
Total operating expenses	<u>15,422,260</u>	<u>12,450,803</u>	<u>53,985,088</u>	<u>44,229,258</u>
Operating loss	<u>(3,949,467)</u>	<u>(1,240,248)</u>	<u>(9,014,693)</u>	<u>(1,775,031)</u>
Other (expenses) income:				
Interest expense	(1,412,637)	(1,554,142)	(6,062,923)	(5,988,411)
(Loss) gain on change in fair value of derivative liability	(699,881)	853,629	1,843,997	5,161,901
Loss on extinguishment of debt	-	-	(2,720,355)	-
Other income, net	7,244	91,166	63,613	60,450
Total other expenses	<u>(2,105,274)</u>	<u>(609,347)</u>	<u>(6,875,668)</u>	<u>(766,060)</u>
Loss before income taxes	<u>(6,054,741)</u>	<u>(1,849,595)</u>	<u>(15,890,361)</u>	<u>(2,541,091)</u>
Benefit (provision) for income taxes	7,660,536	(314)	7,660,536	(26,051)
Net income (loss)	1,605,795	(1,849,909)	(8,229,825)	(2,567,142)
Preferred stock dividends in arrears	(391,394)	(427,949)	(1,578,220)	(1,746,203)
Net income (loss) attributable to common stockholders	<u>\$ 1,214,401</u>	<u>\$ (2,277,858)</u>	<u>\$ (9,808,045)</u>	<u>\$ (4,313,345)</u>
Basic and diluted earnings (loss) per common share	<u>\$ 0.12</u>	<u>\$ (0.34)</u>	<u>\$ (1.32)</u>	<u>\$ (0.92)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>9,894,916</u>	<u>7,741,975</u>	<u>8,873,766</u>	<u>7,132,427</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

December 31,	December 31,
2015	2014

ASSETS**Current assets:**

Cash and cash equivalents	\$	7,540,543	\$	6,444,683
Accounts receivable, net of allowance for doubtful accounts of approximately \$309,000 and \$245,000, respectively		7,650,141		7,087,599
Prepaid expenses and other current assets		1,618,603		927,772

Total current assets

		<u>16,809,287</u>		<u>14,460,054</u>
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Property and equipment, net

		<u>14,055,493</u>		<u>13,478,912</u>
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Other assets:

Security deposits		575,038		648,998
Restricted cash		165,123		1,164,381
Goodwill		27,060,297		10,397,460
Intangible assets, net		45,824,399		32,432,416
Other assets		1,262,629		1,165,273

Total other assets

		<u>74,887,486</u>		<u>45,808,528</u>
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TOTAL ASSETS

	\$	<u>105,752,266</u>	\$	<u>73,747,494</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY**Current liabilities:**

Notes payable - non-related parties	\$	685,780	\$	1,225,000
Due to RootAcess seller		300,000		-
Equipment financing obligations		959,380		662,131
Accounts payable and accrued expenses		13,129,225		10,471,514

Total current liabilities

		<u>15,074,385</u>		<u>12,358,645</u>
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Long-term liabilities:

Notes payable - non-related parties, net of discount		31,777,329		41,263,934
Term Loan		25,000,000		-
Due to RootAcess seller		333,333		-
Notes payable - related parties		1,074,829		1,292,878
Indebtedness under revolving credit facility		15,000,000		-
Equipment financing obligations		2,085,416		1,702,704

Derivative liabilities

		953,005		3,839,569
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Total liabilities

		<u>91,298,297</u>		<u>60,457,730</u>
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Commitments and contingencies**Stockholders' equity (deficit):**

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 23,324 and 26,793 shares issued and outstanding		234		268
Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,788,971 and 7,345,028 shares issued and outstanding		127,890		73,449
Capital in excess of par value		184,859,082		175,519,459
Accumulated deficit		(170,533,237)		(162,303,412)

Total stockholders' equity

		<u>14,453,969</u>		<u>13,289,764</u>
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

	\$	<u>105,752,266</u>	\$	<u>73,747,494</u>
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FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA
(Unaudited)

	Three Months Ended		Year Ended December 31,	
	December 31,			
	2015	2014	2015	2014
Net income (loss)	\$ 1,605,795	\$ (1,849,910)	\$ (8,229,825)	\$ (2,567,142)
Income from discontinued operations	-	(55,000)	-	(55,000)
Interest expense and other financing costs	1,423,491	1,554,142	8,833,625	6,085,897

(Benefit) provision expense for income taxes	(7,660,536)	315	(7,660,536)	26,051
Depreciation and amortization	3,792,349	3,008,687	12,975,981	11,004,883
EBITDA	<u>(838,901)</u>	<u>2,658,234</u>	<u>5,919,245</u>	<u>14,494,689</u>
Acquisition transaction expenses	1,429,925	297,598	2,972,440	879,076
Change in fair value of derivative liability	699,881	(853,630)	(1,843,997)	(5,161,901)
(Gain) loss on disposal of property and equipment	34,942	(5,623)	37,444	116,638
Non-recurring Employee Related Expenses	2,150	-	30,996	-
Legal settlements	-	-	108,360	-
Stock based compensation expense	276,302	175,541	934,739	474,825
Adjusted EBITDA	<u>\$ 1,604,299</u>	<u>\$ 2,272,120</u>	<u>\$ 8,159,227</u>	<u>\$ 10,803,327</u>

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 Fusion's Form 10-K or 10-Q filed with the Securities and Exchange Commission, the information contained in the Form 10-K or 10-Q governs.

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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Source: Fusion