

August 11, 2016

Fusion Reports Second Quarter 2016 Results

Revenue Grows 21% to \$30.4 Million; Introduces Three-Year Financial Targets

NEW YORK, NY -- (Marketwired) -- 08/11/16 -- Fusion (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the quarter ended June 30, 2016.

Second Quarter Highlights

- Consolidated revenue increased 21% year-over-year to \$30.4 million, driven by a 30% increase in Business Services segment revenue to \$20.8 million
- Adjusted EBITDA (a non-GAAP measure) was \$2.2 million, consistent with the second quarter of 2015, reflecting investments in sales and marketing
- Signed a total of \$8.8 million in new Business Services contract value during the second quarter, up 65% from the year-ago period
- Ended the quarter with approximately \$390,000 in Business Services MRR in backlog, representing \$13.7 million in total contract value
- Signed several large, multi-year enterprise customers combining multiple cloud service offerings into an integrated solution
- Ended the quarter with approximately 12,200 customers, an average monthly revenue per customer (ARPU) of \$547, and a churn rate of 1.26%
- Established three-year financial targets of \$200 million in revenue, 50% gross margin, and 15% Adjusted EBITDA margin

Matthew Rosen, Fusion's Chief Executive Officer, commented, "During the second quarter, Fusion delivered very strong year-over-year revenue growth and solid bookings of nearly \$9 million driven in part by several large, multi-year enterprise customer wins. These included a \$1.3 million contract with a leading cybersecurity company, a \$650,000 contract with a regional Midwestern library system, and a \$500,000 contract with a major industrial company. These large wins will help drive revenue growth in the second half of the year.

"We anticipate that our momentum will continue as we made additional investments during the second quarter in our direct sales organization. Since we appointed John Hendler as our new Senior Vice President of Sales in April, we have brought in 10 highly experienced sales professionals to strengthen and expand our sales organization. With these new hires expected to ramp up during the second half of 2016, and as we convert our backlog into monthly recurring revenue, we will be in a position to deliver our goal of 5% to 7% annualized organic growth."

Michael Bauer, Fusion's Chief Financial Officer, said, "We are introducing a set of financial objectives for Fusion, targeting a run rate of \$200 million in revenue, a 50% gross margin, and a 15% Adjusted EBITDA margin. We intend to achieve these objectives by driving further growth in our higher-margin Business Services segment through a combination of organic growth and targeted acquisitions. Our acquisition pipeline is robust, and we remain optimistic that we can complete one to two transactions per year and achieve our financial objectives within the next three years."

Second Quarter Results

Fusion reported consolidated revenue of \$30.4 million for the quarter ended June 30, 2016, which represents an increase of \$5.3 million or 21% over consolidated revenue of \$25.1 million reported for the second quarter of 2015.

Revenue in the Company's Business Services segment increased 30% to \$20.8 million in the second quarter of 2016, as compared to \$16.0 million in the second quarter of 2015, driven primarily by the Fidelity acquisition in the fourth quarter of 2015.

Revenue in the Company's Carrier Services segment was \$9.6 million, as compared to \$9.0 million in the second quarter of 2015, an increase of 7%. This increase was primarily due to an increase in the blended rate per minute of traffic terminated, partially offset by a decrease in the number of minutes of traffic carried during the quarter.

Fusion's consolidated gross margin during the second quarter of 2016 was 43.3% as compared to 44.9% in the second quarter of 2015. Business Services had a gross margin of 61.1% for the second quarter of 2016, compared to 63.6% in the second quarter of 2015. Carrier Services' gross margin for the quarter ended June 30, 2016 was

4.8%, down from 11.6% in the same period a year ago due to a higher per-minute cost of termination for minutes carried.

The Company reported a net loss attributable to common shareholders of \$2.9 million, or \$0.20 per share on a basic and diluted basis, as compared to a net loss of \$1.3 million, or \$0.33 per share on a basic and diluted basis for the second quarter of 2015. In the second quarter of 2016, net loss included a \$46,000 non-cash gain in the fair value of derivative liability, as compared to a \$2.5 million gain in the second quarter of 2015. Adjusted EBITDA was \$2.2 million during the second quarter of 2016 and the second quarter of 2015.

Conference Call Information

Fusion will hold a conference call today, Thursday, August 11, 2016 at 10:30 a.m. Eastern Time to discuss its results for the quarter ended June 30, 2016. To participate in the live conference call, interested parties should dial (844) 883-3892 or (412) 317-9248 at least 10 minutes prior to the start time and ask to be placed in the Fusion call. A replay will be available following the call at ir.fusionconnect.com.

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 to Adjusted EBITDA", immediately following the Consolidated Balance Sheets included in this press release.

- Tables Follow -

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues	\$ 30,420,291	\$ 25,063,695	\$ 63,604,706	\$ 50,326,733
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	<u>17,244,814</u>	<u>13,813,615</u>	<u>37,166,491</u>	<u>27,826,307</u>
Gross profit	<u>13,175,477</u>	<u>11,250,080</u>	<u>26,438,215</u>	<u>22,500,426</u>
Depreciation and amortization	3,031,890	3,039,758	5,948,153	6,043,205
Selling, general and administrative expenses	<u>11,270,013</u>	<u>9,851,735</u>	<u>22,694,799</u>	<u>19,582,713</u>
Total operating expenses	<u>14,301,903</u>	<u>12,891,493</u>	<u>28,642,952</u>	<u>25,625,918</u>
Operating (loss) income	<u>(1,126,426)</u>	<u>(1,641,413)</u>	<u>(2,204,737)</u>	<u>(3,125,492)</u>
Other (expenses) income:				
Interest expense	(1,624,669)	(1,608,709)	(3,252,633)	(3,215,552)
Gain (loss) on change in fair value of derivative liability	45,642	2,510,950	228,042	1,306,148
Other income (expense), net	<u>25,115</u>	<u>26,756</u>	<u>15,445</u>	<u>58,767</u>

Total other income (expenses)	(1,553,912)	929,006	(3,009,146)	(1,850,637)
Loss before income taxes	(2,680,338)	(712,407)	(5,213,883)	(4,976,129)
Provision for income taxes	-	-	-	-
Net loss	(2,680,338)	(712,407)	(5,213,883)	(4,976,129)
Preferred stock dividends in arrears	(284,839)	(630,523)	(1,816,821)	(1,049,511)
Net loss attributable to common stockholders	<u>\$ (2,965,177)</u>	<u>\$ (1,342,930)</u>	<u>\$ (7,030,704)</u>	<u>\$ (6,025,640)</u>
Basic and diluted loss per common share	<u>\$ (0.20)</u>	<u>\$ (0.33)</u>	<u>\$ (0.49)</u>	<u>\$ (0.81)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>14,864,768</u>	<u>8,461,794</u>	<u>14,306,170</u>	<u>8,311,499</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	<i>(unaudited)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,798,911	\$ 7,540,543
Accounts receivable, net of allowance for doubtful accounts of approximately \$311,654 and \$308,813, respectively	7,881,031	7,650,141
Prepaid expenses and other current assets	2,627,478	1,618,603
Total current assets	<u>14,307,420</u>	<u>16,809,287</u>
Property and equipment, net	<u>13,234,210</u>	<u>14,055,493</u>
Other assets:		
Security deposits	549,423	575,038
Restricted cash	27,153	165,123
Goodwill	27,722,494	27,060,297
Intangible assets, net	44,078,486	45,824,399
Other assets	530,732	281,045
Total other assets	<u>72,958,288</u>	<u>73,905,902</u>
TOTAL ASSETS	<u>\$ 100,499,918</u>	<u>\$ 104,770,682</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - non-related parties	\$ 685,780	\$ 685,780
Due to RootAxxcess seller	500,000	300,000
Due to TFB seller	100,000	-
Equipment financing obligations	991,681	959,380
Accounts payable and accrued expenses	13,263,707	13,129,225
Total current liabilities	<u>15,541,168</u>	<u>15,074,385</u>
Long-term liabilities:		
Notes payable - non-related parties, net of discount	30,713,635	30,795,745
Term loan	25,000,000	25,000,000
Indebtedness under revolving credit facility	15,000,000	15,000,000
Due to RootAxxcess seller	-	333,333
Due to TFB seller	886,606	-
Notes payable - related parties	1,099,530	1,074,829
Equipment financing obligations	1,744,190	2,085,416
Derivative liabilities	385,990	953,005
Total liabilities	<u>90,371,119</u>	<u>90,316,713</u>
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 17,324 and 23,324 shares issued and outstanding	173	233

Common stock, \$0.01 par value, 50,000,000 shares authorized, 14,975,482 and 12,788,971 shares issued and outstanding	149,755	127,890
Capital in excess of par value	185,725,991	184,859,082
Accumulated deficit	(175,747,120)	(170,533,237)
Total stockholders' equity	<u>10,128,799</u>	<u>14,453,969</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 100,499,918</u>	<u>\$ 104,770,682</u>

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net (loss)	\$ (2,680,338)	\$ (712,407)	\$ (5,213,883)	\$ (4,976,129)
Interest expense and other financing costs	1,624,923	1,623,115	3,252,915	3,229,958
Depreciation and amortization	3,031,890	3,039,758	5,948,153	6,043,205
EBITDA	1,976,475	3,950,466	3,987,185	4,297,034
Acquisition transaction expenses	71,439	458,929	163,809	1,165,302
Change in fair value of derivative liability	(45,642)	(2,510,950)	(228,042)	(1,306,148)
(Gain) loss on disposal of property and equipment	11,996	(1,390)	72,818	(1,390)
Non-recurring employee related expenses	-	-	535,500	28,846
Stock based compensation expense	207,712	285,662	458,496	504,529
Adjusted EBITDA	<u>\$ 2,221,980</u>	<u>\$ 2,182,717</u>	<u>\$ 4,989,766</u>	<u>\$ 4,688,173</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 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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