November 15, 2016

Fusion Reports Third Quarter 2016 Results

Revenue Grows 20% to $29.5 Million; Sales Bookings Grow 67%; Apptix Acquisition and New $70.0 Million Credit Facility Significantly Enhance Fusion's Market Position and Financial Strength

NEW YORK, NY -- (Marketwired) -- 11/15/16 -- Fusion (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the quarter ended September 30, 2016.

Third Quarter Highlights

- Consolidated revenue increased 20% year-over-year to $29.5 million driven by a 27% increase in Business Services segment revenue to $20.6 million
- Signed $8.5 million in new Business Services total contract value during the third quarter, up 67% from the year-ago period, demonstrating continued progress in developing the company's sales growth engine
- Ended the third quarter with approximately $373,000 in Business Services MRR in backlog, representing $12.6 million in total contract value, up 78% over the third quarter of 2015
- Signed several large, multi-year enterprise customers combining multiple cloud service offerings into an integrated solution, including a three year, $1.1 million contract with a leading Southeastern bank connecting 33 of its locations to the Fusion cloud
- Ended the quarter with an average monthly revenue per customer (ARPU) of $568 and a churn rate of 1.1%, compared to $547 and 1.26% at June 30, 2016
- Adjusted EBITDA (a non-GAAP measure) was $1.7 million, reflecting a full quarter of investments in sales and marketing efforts to enhance organic revenue growth

In a separate press release issued today, Fusion also announced that it has acquired Herndon, Virginia based Apptix, Inc., a leading cloud services provider, for total consideration of $28.0 million consisting of $23.0 million in cash and approximately 3.0 million shares of Fusion unregistered common stock priced at $1.68 per share. The acquisition significantly expands Fusion's scale and scope, adding approximately $25 million in annual revenue and $8 million in post-synergy Adjusted EBITDA (a 30% contribution margin), for a total pro forma annual revenue run-rate of approximately $145 million and Adjusted EBITDA of $16 million.

The acquisition was financed with a new $70.0 million senior secured credit facility led by East West Bank, which replaces and adds to Fusion's previous $40.0 million senior credit facility. The acquisition and debt financing closed on Monday, November 14.

Matthew Rosen, Fusion's Chief Executive Officer, commented, "Our business during the third quarter demonstrated strong year-over-year revenue growth and continued positive momentum in sales bookings. The contract value of our bookings grew 67% during the quarter and over the last 12 months, indicating the early success of our sales and marketing investments and validating our organic sales strategy. At the same time, our solid performance on key metrics including ARPU and churn illustrates the success of our positioning in the market as the single source for the cloud, delivering multiple services in an integrated solution to capture larger customer orders and create strong customer loyalty.

"We were pleased to be awarded several large, multi-year enterprise customer wins during the third quarter," Mr. Rosen continued. "The performance of our recent hires in our direct sales organization is also on track, and I am confident that they will help deliver on our goal of 5% to 7% annualized organic growth. Additionally, we expect the Apptix acquisition to further develop Fusion's organic growth platform, creating substantial cross- and up-selling opportunities into the combined Apptix and Fusion base of more than 13,000 business customers."

Michael Bauer, Fusion's Chief Financial Officer, said, "We are excited by the addition of Apptix's high-margin cloud services business, along with the additional scale and significant flow-through of incremental revenue to adjusted EBITDA that it brings. This acquisition is a big step forward to achieving our intermediate financial goals of $200 million in revenue, 50% gross margin and 15% Adjusted EBITDA margin."

Third Quarter Results

Fusion reported consolidated revenue of $29.5 million for the third quarter of 2016, which represents an increase of $5.0 million or 20% over consolidated revenue of $24.5 million reported for the third quarter of 2015.

Revenue in the Company's Business Services segment increased 27% to $20.6 million, as compared to $16.3 million in the third quarter of 2015, driven primarily by the Fidelity acquisition in the fourth quarter of 2015.

Revenue in the Company's Carrier Services segment was $8.9 million, as compared to $8.3 million in the third 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 third quarter of 2016 was 43.1% as compared to 44.8% in the third quarter of 2015. Business Services had a gross margin of 59.9% for the third quarter of 2016, compared to 63.8% in the third quarter of 2015, due primarily to the integration of the Fidelity acquisition, which carried a lower gross margin.

Carrier Services' gross margin for the third quarter of 2016 was approximately 4.3%, down from 7.6% 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 $3.4 million, or $0.23 per share on a basic and diluted basis, as compared to a net loss of $5.2 million, or $0.72 per share on a basic and diluted basis for the third quarter of 2015. Adjusted EBITDA was $1.7 million during the third quarter of 2016, as compared to an Adjusted EBITDA of $1.9 million for the third quarter of 2015.

Conference Call Information

Fusion will hold a conference call today, November 15, 2016 at 11:00 a.m. Eastern Time to discuss its results for the quarter ended September 30, 2016, as well as the Apptix acquisition and financing transactions. 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 September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenues	$ 29,497,129	$ 24,530,824	$ 93,101,835	$ 74,857,557

Cost of revenues (exclusive of depreciation and amortization, shown separately below)	16,769,587	13,533,647	53,936,078	41,359,955
Gross profit	12,727,542	10,997,177	39,165,757	33,497,602
Depreciation and amortization	2,998,628	3,140,427	8,946,781	9,183,632
Selling, general and administrative expenses	11,408,048	9,796,483	34,102,847	29,379,196
Total operating expenses	14,406,676	12,936,910	43,049,628	38,562,828
Operating loss	(1,679,134)	(1,939,733)	(3,883,871)	(5,065,226)
Other (expenses) income:				
Interest expense	(1,625,195)	(1,434,734)	(4,877,828)	(4,650,286)
Gain on change in fair value of derivative liability	152,057	1,237,730	380,099	2,543,878
Loss on extinguishment of debt	--	(2,720,355)	--	(2,720,355)
Other income (expense), net	18,069	(2,399)	33,514	56,369
Total other expenses	(1,455,069)	(2,919,758)	(4,464,215)	(4,770,394)
Loss before income taxes	(3,134,203)	(4,859,491)	(8,348,086)	(9,835,620)
Provision for income taxes	(10,951)	--	(10,951)	--
Net loss	(3,145,154)	(4,859,491)	(8,359,037)	(9,835,620)
Preferred stock dividends	(285,646)	(379,740)	(2,102,467)	(1,186,826)
Net loss attributable to common stockholders	$ (3,430,800)	$ (5,239,231)	$ (10,461,504)	$ (11,022,446)
Basic and diluted loss per common share	$ (0.23)	$ (0.72)	$ (0.72)	$ (1.52)
Weighted average common shares outstanding:				
Basic and diluted	14,990,816	8,958,815	14,536,893	8,529,642

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2016 ***(unaudited)***	***December 31, 2015***
ASSETS		
Current assets:		
Cash and cash equivalents	$ 882,040	$ 7,540,543
Accounts receivable, net of allowance for doubtful accounts of approximately $366,422 and $308,813, respectively	8,199,522	7,650,141
Prepaid expenses and other current assets	2,457,736	1,618,603
Total current assets	11,539,298	16,809,287
Property and equipment, net	12,929,148	14,055,493
Other assets:		
Security deposits	548,288	575,038
Restricted cash	27,153	165,123
Goodwill	28,049,775	27,060,297
Intangible assets, net	42,727,552	45,824,399
Other assets	302,053	281,045
Total other assets	71,654,821	73,905,902
TOTAL ASSETS	$ 96,123,267	$ 104,770,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - non-related parties	$ 685,780	$ 685,780
Due to RootAxcess seller	333,334	300,000
Due to TFB seller	100,000	-
Equipment financing obligations	997,089	959,380

Accounts payable and accrued expenses	12,610,885	13,129,225
Total current liabilities	14,727,088	15,074,385
Long-term liabilities:		
Notes payable - non-related parties, net of discount	30,672,580	30,795,745
Term loan	25,000,000	25,000,000
Indebtedness under revolving credit facility	15,000,000	15,000,000
Due to RootAxcess seller	--	333,333
Due to TFB seller	861,606	-
Notes payable - related parties	1,112,445	1,074,829
Equipment financing obligations	1,492,558	2,085,416
Derivative liabilities	233,934	953,005
Total liabilities	89,100,211	90,316,713
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 17,299 and 23,324 shares issued and outstanding	173	233
Common stock, $0.01 par value, 50,000,000 shares authorized, 15,064,953 and 12,788,971 shares issued and outstanding	150,650	127,889
Capital in excess of par value	185,764,507	184,859,084
Accumulated deficit	(178,892,274)	(170,533,237)
Total stockholders' equity	7,023,056	14,453,969
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 96,123,267	$ 104,770,682

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		***Nine Months Ended September 30,***	
	2016	2015	2016	2015
Net (loss)	$ (3,145,154)	$ (4,859,491)	$ (8,359,037)	$ (9,835,620)
Interest expense and other financing costs	1,625,413	3,141,848	4,878,328	6,371,806
Provision for income taxes	10,951	--	10,951	--
Depreciation and amortization	2,998,628	3,140,427	8,946,781	9,183,632
EBITDA	1,489,838	1,422,784	5,477,023	5,719,818
Acquisition transaction expenses	111,900	485,573	275,710	1,650,875
Change in fair value of derivative liability	(152,057)	(1,237,730)	(380,099)	(2,543,878)
Loss on disposal of property and equipment	13,958	3,892	86,777	2,502
Non-recurring employee related expenses	--	--	535,500	28,846
Refinancing transaction costs	--	1,038,320	--	1,038,320
Stock based compensation expense	228,040	153,916	686,535	658,445
Adjusted EBITDA	$ 1,691,679	$ 1,866,755	$ 6,681,446	$ 6,554,928

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, contact center, 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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