August 20, 2013

Fusion Improves Adjusted EBITDA 160% and Increases Second Quarter Revenue 39%

NEW YORK, NY -- (Marketwired) -- 08/20/13 -- Fusion Telecommunications International, Inc. (OTCQB: FSNN), a provider of cloud communications, cloud computing and managed cloud solutions ("Fusion"), today announced financial results for the second quarter and six months ended June 30, 2013.

Second Quarter Company Highlights

- Achieved revenues of $14.2 million, an increase of $4.0 million, or 39%, from the second quarter of 2012.
  - Revenues from Fusion's higher margin Business Services Segment increased by $6.9 million to $7.5 million compared to the same period last year.
- Gross profit increased 268% to $4.6 million compared to the second quarter of 2012.
- Gross margin increased to 32.5% as compared to 12.3% for the second quarter of 2012.
- Adjusted EBITDA was $0.5 million compared to an adjusted EBITDA loss of $0.9 million for the same period last year.
- Adjusted EBITDA increased by more than 120% from the first quarter of 2013.
- Business Services Segment churn was 1.1%.
- Business Services Segment ARPU reached $727.
- Contracted value of new booked Business Services Segment orders was $2.6 million, a 58% increase compared to the same period last year.

"Fusion's adjusted EBITDA in the second quarter more than doubled from our milestone achievement of positive EBITDA in the first quarter of 2013, a clear indication of our continuing performance improvements and efforts to increase shareholder value," said Matthew Rosen, Fusion's Chief Executive Officer. "The successful integration of NBS products, platforms, people and systems in our Business Services division has contributed to substantial increases in consolidated revenue and gross profit, and positions us well for future acquisitions. Fusion's high ARPU and low attrition reflect our customers' confidence in Fusion's integrated portfolio of cost-effective cloud communications solutions and our unwavering commitment to service excellence. We remain committed to our strategic business model for strong financial gains and continued market expansion as we emerge as a leader in the growing cloud services industry."

Second Quarter Results

Fusion reported consolidated revenues of $14.2 million for the quarter ended June 30, 2013, an increase of $4.0 million, or 39%, from the second quarter of 2012. Revenues from Fusion's Business Services Segment increased by $6.9 million to $7.5 million in the second quarter of 2013 compared to the same period of a year ago, due to the inclusion of revenue contributed by NBS, which the Company acquired on October 29, 2012. The Company's Carrier Services revenue for the second quarter decreased by $2.9 million, or 30.0%, from the second quarter of 2012, due to a decrease in the volume of traffic terminated over its network, partially offset by higher realization rates.

The Company's consolidated gross margin increased to 32.5% for the second quarter of 2013, as compared to 12.3% for the second quarter of 2012, due to an increased contribution from the higher margin Business Services segment, which generated a gross margin of 51.1% in the second quarter of 2013, compared with a 35.2% gross margin in the same period of a year ago, due to the acquisition of NBS. The gross margin for the Carrier Services segment increased to 11.9% in the second quarter of 2013 from 10.9% in the same period of a year ago, mainly due to the insurance proceeds from our business insurance interruption claim related to Hurricane Sandy.

Net income for the second quarter was $1.7 million, or $0.01 per share, as compared to a net loss of $1.2 million, or ($0.01) per share in the same period of a year ago. The net income in the second quarter of 2013 includes a one-time non-cash gain on the extinguishment of a trade payable in the amount of $2.9 million, as well as interest on senior debt of $0.5 million and amortization of intangibles acquired in the NBS transaction of $0.6 million, with no comparable amounts present in 2012. Adjusted EBITDA (earnings (loss) from continuing operations before interest, taxes, depreciation, amortization, and specific non-recurring and non-cash adjustments) for the second quarter of 2013 was $0.5 million, as compared to an adjusted EBITDA loss of $0.9 million in the second quarter of 2012, with the improvement being attributable to the inclusion of NBS' results in the second quarter of 2013.

Six Months Results

Fusion reported consolidated revenues of $30.4 million for the six months ended June 30, 2013, an increase of $8.6 million, or 39.7%, from the six months ended June 30, 2012. Revenues from Fusion's Business Services Segment increased by $13.8 million to $15.0 million for the six months ended June 30, 2013 compared to the same period of a year ago, due to the inclusion of revenue contributed by NBS. The Company's Carrier Services revenue for the six months ended June 30, 2013 decreased by $5.1 million, or 25.0%, from the first six months of 2012, due to a decrease in the volume of traffic terminated.

The Company's consolidated gross margin increased to 29.7% in the six months ended June 30, 2013, as compared to 12.6% for the same period of 2012, due to an increased contribution from the higher margin Business Services segment, which generated a gross margin of 50.4% in the first six months of 2013, compared with a 36.4% gross margin in the same period of a year ago, due to the acquisition of NBS. The gross margin for the Carrier Services segment decreased to 9.8% for the six months ended June 30, 2013 from 11.3% in the same period of a year ago, mainly due to higher rates for the cost of traffic terminated.

Net income for the six months ended June 30, 2013 was $0.1 million, or $0.00 per share, as compared to a net loss of $2.0 million and ($0.01) per share in the same period of a year ago. The net loss in the first six months of 2013 includes the one-time $2.9 million non-cash gain and interest on senior debt of $0.9 million and amortization of intangibles acquired in the NBS transaction of $1.1 million, with no comparable amounts present in 2012. Adjusted EBITDA for the six months ended June 30, 2013 was $0.8 million, as compared to an adjusted EBITDA loss of $1.5 million in the same period of 2012, with the improvement being attributable to the inclusion of NBS' results in the first six months of 2013.

At June 30, 2013, the Company had a working capital deficit and stockholders' deficit of $5.5 million and $3.8 million, respectively, as compared to a working capital deficit of $8.0 million and $6.1 million, respectively, at December 31, 2012, and total assets of $27.3 million.

Use of Non-GAAP Financial Measurements:

The Company believes that EBITDA (earnings from continuing operations before interest, taxes, depreciation and amortization) is useful to investors because it is commonly used in the communications industry to evaluate companies on the basis of operating performance and leverage. The Company also believes that 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. 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 stock-based compensation. 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 period 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 ("U.S. 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 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
(unaudited)

	Three Months Ended June 30,		***Six Months Ended June 30,***	
	2013	***2012***	***2013***	***2012***
Revenues	$ 14,230,178	$ 10,219,436	$ 30,398,599	$ 21,754,140
Cost of revenues, exclusive of depreciation and amortization, shown separately below	9,605,534	8,963,789	21,357,130	19,008,549
Gross profit	4,624,644	1,255,647	9,041,469	2,745,591
Depreciation and amortization	872,584	93,954	1,722,499	192,177
Selling general and administrative expenses	4,433,848	2,258,385	8,701,446	4,309,526

Total operating expenses	5,306,432	2,352,339	10,423,945	4,501,703
Operating loss	(681,788)	(1,096,692)	(1,382,476)	(1,756,112)
Other (expenses) income:				
Interest expense	(669,731)	(49,679)	(1,329,250)	(106,765)
Loss on extinguishment of debt	(92,376)	-	(150,579)	-
Other income (expenses), net	220,786	(88,249)	42,916	(157,694)
Total other income (expenses)	(541,321)	(137,928)	(1,436,913)	(264,459)
Gain on extinguishment of accounts payable	2,908,882	-	2,908,882	-
Net income (loss)	1,685,773	(1,234,620)	89,493	(2,020,571)
Preferred stock dividends in arrears	(100,349)	(100,349)	(199,595)	(200,698)
Net income (loss) applicableto common stockholders	$ 1,585,424	$ (1,334,969)	$ (110,102)	$ (2,221,269)
Basic earnings (loss) per common share:	$ 0.01	$ (0.01)	$ (0.00)	$ (0.01)
Diluted earnings (loss) per common share:	$ 0.01	$ (0.01)	$ (0.00)	$ (0.01)
Weighted average common shares outstanding:				
Basic	195,867,029	165,875,657	187,316,263	162,932,029
Diluted	279,677,196	165,875,657	187,316,263	162,932,029

Fusion Telecommunications International, Inc.

Consolidated Balance Sheets

	June 30, 2013	***December 31, 2012***
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 786,903	$ 543,214
Accounts receivable, net	4,251,655	2,924,302
Inventory	433,894	341,118
Prepaid expenses and other current assets	589,454	1,001,449
Total current assets	6,061,906	4,810,083
Property and equipment, net	2,448,760	2,406,944
Other assets:		
Security deposits	446,855	439,741
Restricted cash	1,163,550	1,026,326
Goodwill	2,406,269	2,406,269
Intangible assets, net	14,289,467	15,396,117
Other assets	504,040	582,947
Total other assets	18,810,181	19,851,400
TOTAL ASSETS	$ 27,320,847	$ 27,068,427
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable - non-related parties	$ 552,755	$ 208,333
Notes payable - related parties	567,857	639,286
Equipment financing obligations	195,308	136,392
Escrow payable	706,700	-
Accounts payable and accrued expenses	8,440,521	10,579,496
Related party payable	1,000,213	1,159,573

Current liabilities from discontinued operations	55,000	55,000
Total current liabilities	11,518,354	12,778,080
Long-term liabilities:		
Notes payable - non-related parties, net of discount	14,319,247	14,475,747
Notes payable - related parties	4,061,422	4,492,136
Equipment financing obligations	104,487	102,071
Derivative liability	960,733	1,066,000
Other long-term liabilities	198,487	266,132
Total liabilities	31,162,730	33,180,166
Stockholders' deficit:		
Preferred stock	119	119
Common stock	2,045,926	1,782,504
Capital in excess of par value	148,676,946	146,760,005
Accumulated deficit	(154,564,874)	(154,654,367)
Total stockholders' deficit	(3,841,883)	(6,111,739)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 27,320,847	$ 27,068,427

Fusion Telecommunications International, Inc. and Subsidiaries
Reconciliation of Net Loss to EBITDA and Adjusted EBITDA
(unaudited)

	Three Months Ended June 30,		***Six Months Ended June 30,***	
	2013	***2012***	***2013***	***2012***
Net loss	$ 1,685,773	$ (1,234,620)	$ 89,493	$ (2,020,571)
Interest expense and other financing costs	715,016	143,340	1,458,019	275,579
Depreciation and amortization	872,583	93,954	1,722,499	192,177
EBITDA	3,273,372	(997,326)	3,270,011	(1,552,815)
Acquisition transaction expenses	2,183	70,956	2,183	87,262
Loss on extinguishment of debt	92,376	-	150,579	-
Gain on extinguishment of accounts payable	(2,908,882)	-	(2,908,882)	-
Change in fair value of derivative liability	(238,517)	-	(105,267)	-
One-time executive compensation	175,000	-	175,000	-
Restructuring charges	34,063	-	34,063	-
Non-cash adjustment to tax accruals	-	-	-	(98,141)
Stock-based compensation expense and stock issued for services	91,664	62,186	139,495	69,182
Adjusted EBITDA	$ 521,259	$ (864,184)	$ 757,182	$ (1,494,512)

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 can 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. This disclosure highlights some of the important risks regarding the Company's business. The primary risk is the Company's ability to raise new and continued capital to execute its comprehensive business strategy. Additional risks include uncertainties associated with: the integration of businesses following an acquisition; the Company's ability to comply with its senior debt agreements; concentration of revenue from one source; 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; the termination of any of the Company's significant contracts or partnerships; the Company's inability to maintain working capital requirements to fund future operations; the Company's ability to attract and retain highly qualified management, technical and sales personnel; and the other factors identified by us from time to time in the Company's filings with the Securities and Exchange Commission, which are available through http://www.sec.gov. However, the reader is cautioned that our future performance could also be affected by risks and uncertainties not enumerated above.

About Fusion

Fusion is a leading provider of cloud communications, cloud computing and managed applications solutions to small, medium and large businesses, and carriers worldwide. Fusion's advanced, high availability service platform enables the integration of leading edge products and services in the cloud, including hosted voice, data, managed network services, Infrastructure as a Service, storage, security, data center services and Emergency Preparedness. Fusion's innovative yet proven cloud-based 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.fusiontel.com.

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