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Fusion Reports First Quarter 2015 Results

NEW YORK, NY -- (Marketwired) -- 05/15/15 -- Fusion(NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the first quarter of 2015.

First Quarter Highlights

- Achieved consolidated sales of $25.3 million, up approximately 10% year over year, and Adjusted EBITDA (a non-GAAP measure) of $2.5 million versus $3.1 million during Q1 2014, reflecting continued investment in Fusion's infrastructure, service delivery and sales distribution platforms
- Consolidated gross margin of 44.5% in Q1 2015 as compared to 46.6% in Q1 2014, driven primarily by a decline in the gross profit contribution from the Company's Carrier Services segment, partly offset by an increase in gross profit contribution from our higher margin Business Services segment
- Identified approximately $2 million in annualized cost savings opportunities following the full integration of the Company's acquisitions of NBS, Inc. ("NBS"), the selected cloud services assets of Broadvox, LLC, ("Broadvox") and PingTone Communications, Inc. ("PingTone")
- Unified all products and services formerly sold as PingTone under the Fusion brand, including the integration of staff, websites, collateral, promotions, customer and partner portals, service delivery systems and infrastructure
- Ended the quarter with approximately 10,800 customers, an ARPU of $518 (versus $500 at the end of Q4 2014), and a churn rate of 1.1%

Matthew Rosen, Fusion's Chief Executive Officer, commented, "Our performance during the first quarter of 2015 reflects our ongoing efforts to position Fusion for sustained, long-term growth by investing in our infrastructure, products and personnel required to accelerate our growth strategy. In particular, during the first quarter we strengthened our internal sales enablement platforms to support our Direct Sales and Inside Sales organizations in order to drive organic growth in the coming quarters. We continue to believe that our expanding scale, robust nation-wide network, and end-to-end suite of innovative yet proven cloud solutions delivered over our secure infrastructure, are critical to Fusion's success as we execute on our growing pipeline of opportunities."

Don Hutchins, Fusion's President and Chief Operating Officer, said, "With the integration of the NBS, Broadvox and PingTone acquisitions complete, we have embarked upon a major initiative to eliminate costs and redundancies throughout our business. Our preliminary review has already identified approximately $2 million in annualized expense savings related to operations which have historically supported multiple platforms. Now that our operations have been consolidated onto our unified service delivery platform, we are in a position to execute on these cost savings. We expect the majority of the annualized savings to occur before the year end."

First Quarter Results

Fusion reported consolidated revenues of $25.3 million for the quarter ended March 31, 2015, which represents an increase of $2.4 million, or 10% over the $22.9 million reported for the first quarter of 2014. Revenues in the Company's Business Services segment totaled $16.8 million during the first quarter of 2015, as compared to $15.7 million in the first quarter of 2014, an increase of approximately 7%. Revenues from the Business Services segment during the first quarter of 2015 include our acquisition of PingTone Communications, Inc. on October 31, 2014. Revenues in the Company's Carrier Services segment totaled $8.5 million, as compared to $7.2 million in the first quarter of 2014, an increase of 18%. This increase was primarily due to an increase in the number of minutes of traffic carried during the quarter, partially offset by lower market rates for the termination of voice traffic.

Fusion's consolidated gross margin during the first quarter of 2015 was 44.5% as compared to 46.6% in Q1 2014. Gross margin during the first quarter of 2015 was impacted by a decline in the gross profit contribution from the Company's Carrier Services segment, partly offset by an increase in gross profit contribution from our higher margin Business Services segment. Business Services, which comprised approximately 66% of the Company's total revenues for the quarter, had a gross margin of 63.7% for the first quarter of 2015, compared to 62.5% in the first quarter of 2014. Carrier Services' gross margin for the quarter ended March 31, 2015 was 6.5%, down from 11.8% percent in the year-earlier first quarter.

The Company reported a net loss of $4.3 million, or $0.49 per share on a fully diluted basis, which includes a $1.2 million non-cash loss from the change in the fair value of our derivative liabilities, as compared to a net income of $1.4 million, or $0.02 per share for the first quarter of 2014. The Company reported adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and specific non-recurring and non-cash adjustments), a non-GAAP metric, of $2.5 million during the first quarter of 2015, a decrease of approximately 19% or $0.6 million compared to the first quarter 2014 adjusted EBITDA of $3.1 million on higher Selling, General and Administrative expenses related to investments to support organic growth throughout 2015 and beyond.

At March 31, 2015, the Company had approximately 10,800 business customers with an Average Revenue per User (ARPU) of $518. Average churn during the first quarter of 2015 was 1.1%.

At March 31, 2015, the Company's cash and cash equivalents stood at $5.4 million, down from $6.4 million at December 31, 2014. Working capital at March 31, 2015 was approximately $1.0 million, as compared to $2.1 million at December 31, 2014. Stockholders' equity decreased by $4.1 million to $9.2 million at March 31, 2015, as compared to approximately $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.

- Tables Follow -

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Interim Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2015	***2014***
Revenues	$ 25,263,038	$ 22,904,829
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	14,012,692	12,229,032
Gross profit	11,250,346	10,675,797
Depreciation and amortization	3,003,447	2,567,491
Selling, general and administrative expenses (including stock-based compensation of approximately $123,000 and $69,000 for the three months ended March 31, 2015 and 2014, respectively)	9,736,294	7,819,397
Total operating expenses	12,739,741	10,386,888
Operating (loss) income	(1,489,396)	288,909
Other (expenses) income:		
Interest expense	(1,606,843)	(1,394,546)
(Loss) gain on change in fair value of derivative liability	(1,204,802)	2,609,947
Other income (expense), net	37,319	(41,074)
Total other (expenses) income	(2,774,326)	1,174,327
(Loss) income before income taxes	(4,263,722)	1,463,236
Provision for income taxes	-	21,495
Net (loss) income	(4,263,722)	1,441,741

Preferred stock dividends in arrears	(418,988)	(442,088)
Net (loss) income attributable to common stockholders	$ (4,682,710)	$ 999,653
Basic and diluted (loss) earnings per common share	$ (0.49)	$ 0.02
Weighted average common shares outstanding:		
Basic and diluted	8,159,534	6,078,546

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	March 31, 2015	***December 31, 2014***
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 5,356,408	$ 6,444,683
Accounts receivable, net of allowance for doubtful accounts of approx. $341,958 and $245,000, respectively	6,912,131	7,087,599
Prepaid expenses and other current assets	1,224,242	927,772
Total current assets	13,492,781	14,460,054
Property and equipment, net	13,793,733	13,478,912
Other assets:		
Security deposits	648,998	648,998
Restricted cash	1,164,381	1,164,381
Goodwill	10,397,460	10,397,460
Intangible assets, net	30,580,312	32,432,416
Other assets	1,118,079	1,165,273
Total other assets	43,909,230	45,808,528
TOTAL ASSETS	$ 71,195,744	$ 73,747,494
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - non-related parties	$ 1,225,000	$ 1,225,000
Equipment financing obligations	896,921	662,131
Accounts payable and accrued expenses	10,391,506	10,471,514
Total current liabilities	12,513,427	12,358,645
Long-term liabilities:		
Notes payable - non-related parties, net of discount	41,147,893	41,263,934
Notes payable - related parties	1,306,348	1,292,878
Equipment financing obligations	1,988,947	1,702,704
Derivative liabilities	5,044,371	3,839,569
Total liabilities	62,000,985	60,457,730
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 26,343 and 26,793 shares issued and outstanding	263	268
Common stock, $0.01 par value, 50,000,000 shares authorized, 7,518,900 and 7,345,028 shares issued and outstanding	75,188	73,449
Capital in excess of par value	175,686,442	175,519,459
Accumulated deficit	(166,567,134)	(162,303,412)
Total stockholders' equity	9,194,759	13,289,764
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 71,195,744	$ 73,747,494

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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

(Unaudited)

	Three Months Ended March 31, 2015	2014
Net (loss) income	$ (4,263,722)	$ 1,441,741
Interest expense and other financing costs	1,606,843	1,452,749
Provision for income taxes	-	21,495
Depreciation and amortization	3,003,447	2,567,491
EBITDA	346,568	5,483,476
Acquisition transaction expenses	706,593	111,876
Change in fair value of derivative liability	1,204,802	(2,609,947)
Non-recurring employee related expenses	28,626	-
Stock based compensation expense	218,867	98,567
Adjusted EBITDA	$ 2,505,456	$ 3,083,972

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.

About Fusion

Fusion is a leading provider of integrated cloud solutions to small, medium and large businesses. Fusion's advanced, high availability cloud services platform enables the integration of leading edge solutions in the cloud, including cloud communications, cloud connectivity, cloud computing and additional cloud services such as storage and security. 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. Fusion is a servicemark of Fusion Telecommunications International, Inc. For more information, please visit www.fusionconnect.com.

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Source: Fusion