November 14, 2014

Fusion Increases Third Quarter Revenue by 52%

Adjusted EBITDA of $8.5 Million for the First Nine Months of 2014

NEW YORK, NY -- (Marketwired) -- 11/14/14 -- Fusion (NASDAQ: FSNN), a provider of integrated cloud solutions, including cloud communications, cloud connectivity, cloud computing and other cloud services (the "Company"), today announced financial results for its fiscal third quarter and for the nine months ended September 30, 2014.

Third Quarter Highlights

- ***Revenues increased by 51.8%, from $14.8 million in the third quarter of 2013 to $22.5 million in the third quarter of 2014***
- ***Business Services revenue increased 95.7%, from $7.8 million in the third quarter of 2013 to $15.2 million in the third quarter of 2014***
- ***Business Services bookings increased $2.0 million, or 57%, over the second quarter of 2013 to $5.5 million for the third quarter of 2014***
- ***Consolidated gross margin was 45.2%, up from 32.8% for the same quarter of 2013***
- ***Gross margin for the primary Business Services segment was 62.0%, compared to 51.4% in 2013***
- ***Generated Adjusted EBITDA of $2.4 million, compared to $0.7 million in 2013***
- ***Ended the quarter with approximately 11,000 customers, an ARPU for the quarter of $460, and customer churn for the quarter of 1.1%***
- ***Ended the quarter with approximately $9.3 million in cash***
- ***Entered into an exclusive agreement with TFB to integrate proprietary contact center software into Fusion's cloud services platform and jointly market Fusion solutions to 500 existing TFB customers in key verticals, including healthcare, government and energy***

Nine Months Highlights

- ***Revenues increased 51.6% over the first nine month period in 2013 to $68.5 million***
- ***Business Services revenue increased by approximately 105% over the first nine month period in 2013 to $46.6 million***
- ***Consolidated gross margin increased to 45.6% for the period from 30.7% in 2013***
- ***Business Services gross margin increased from 50.7% in 2013 to 62.0% in 2014***
- ***Adjusted EBITDA was $8.5 million in 2014, as compared to $1.5 million in 2013***

CEO Matthew Rosen commented, "This was another fast-moving and productive quarter for Fusion, as we continued to make great progress in executing on our plan. Fusion is at an inflection point. Positioning ourselves for significant future growth has been and continues to be a key focus throughout 2014, as we work to finalize the integration of the Broadvox cloud services business, expand our cloud network, upgrade back-office infrastructure and systems, and expand our sales and marketing organization. Fusion's acquisition of the cloud services provider PingTone on October 31, 2014 was our third acquisition in twenty-four months, reflecting the success of our strategy to grow through acquisition as well as organically. With the addition of PingTone, we now have a direct sales force to complement our nationwide network of distribution partners, and have expanded our inside sales team to upsell our services to existing customers."

Mr. Rosen continued, "We're creating value for our customers by providing a single integrated solution for the many benefits of the cloud, with advanced cloud services that increase productivity, replace large capital expenditures with predictable OpEx models, reduce staff and infrastructure requirements, future-proof investments and deliver built-in business continuity. Adoption of cloud services is growing at an impressive pace, and we believe we're well positioned to emerge as a leading cloud solutions provider during a period of dramatic industry growth. We have confidence that our strong year over year performance will earn the attention of investors who will soon discover our strategy's success."

Third Quarter Results

Fusion reported consolidated revenues of $22.5 million for the quarter ended September 30, 2014, which represents an increase of $7.7 million, or 51.8%, over the $14.8 million reported for the third quarter of 2013. The Company's Business Services segment, augmented by the acquisition of the Broadvox cloud services business on December 31, 2013, posted third quarter 2014 revenues of $15.2 million, as compared to $7.8 million in the third quarter of

2013, an increase of 95.7%. The Company's Carrier Services segment posted revenues of $7.3 million, as compared to year-earlier revenues of $7.0 million, an increase of 3.2%. Business Services, which comprised approximately 68% of the Company's total revenues for the quarter, had a gross margin of 62.0% for the third quarter of 2014, compared to 51.4% in the third quarter of 2013. Carrier Services gross margin for the quarter ended September 30, 2014 was 10.0%, compared to 12.2% in the year-earlier third quarter.

For the third quarter of 2014, the Company reported net income of $0.3 million, or $0.19 per share (on a fully diluted basis), as compared to a net loss of $2.2 million, or $0.52 per share (on a fully diluted basis), for the third quarter of 2013. The difference was largely attributable to a $2.4 million non-cash gain resulting from the change in fair value of the Company's derivative liabilities.

For the third 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 that is used widely in our industry for comparative purposes, of $2.4 million, as compared to the third quarter 2013 Adjusted EBITDA of $0.7 million.

Nine Months Results

Fusion reported consolidated revenues of $68.5 million for the nine months ended September 30, 2014, which represents an increase of $23.3 million, or 51.6%, over the $45.2 million reported for the same period of a year ago. The Company's Business Services segment posted revenues of $46.6 million for the first nine months of 2014, as compared to $22.8 million for the first nine months of 2013, an increase of approximately 105%. The Company's Carrier Services segment posted revenues of $21.9 million for the nine-month period, as compared to year-earlier revenues of $22.5 million for the same period, a decrease of 2.4%. Business Services gross margin was 62.0% for the first nine months of 2014, compared to 50.7% in the same period of a year ago. Carrier Services gross margin for the nine months ended September 30, 2014 was 10.8%, compared to 10.6% for the nine months ended September 30, 2013.

The Company reported a net loss of $0.7 million, or $0.57 per share (on a fully diluted basis), for the first nine months of 2014, as compared to a net loss of $2.1 million, or $0.61 per share (on a fully diluted basis), for the same period in 2013. The difference was largely attributable to a $4.3 million non-cash gain resulting from a change in fair value of the Company's derivative liabilities and a $1.2 million decrease in operating loss, partially offset by the absence of a $2.9 million gain on the extinguishment of debt in 2013 not present in 2014 and an increase in interest expense in 2014.

For the nine months ended September 30, 2014, the Company reported Adjusted EBITDA of $8.5 million, as compared to Adjusted EBITDA of $1.5 million for the nine months ended September 30, 2013.

At September 30, 2014, the Company had approximately 11,000 business customers with an Average Revenue per User (ARPU) of $460. Churn for the quarter was approximately 1.1%.

At September 30, 2014, the Company's consolidated cash balance was $9.3 million, up from $6.2 million at December 31, 2013. Working capital at September 30, 2014 was $5.3 million, as compared to $1.8 million at December 31, 2013. Stockholders' equity increased by $5.5 million to $12.4 million at September 30, 2014, compared to approximately $7.0 million at December 31, 2013.

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

-Tables follow-

Fusion Telecommunications International, Inc.
Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Revenues	$ 22,486,531	$ 14,811,828	$ 68,532,333	$ 45,210,427
Cost of revenues, exclusive of depreciation and amortization, shown separately below	12,312,188	9,953,734	37,288,661	31,310,864
Gross profit	10,174,343	4,858,094	31,243,672	13,899,563
Depreciation and amortization	2,830,727	911,613	7,996,196	2,634,112
Selling general and administrative expenses	8,137,368	4,312,508	23,782,259	13,013,954
Total operating expenses	10,968,095	5,224,121	31,778,455	15,648,066
Operating loss	(793,752)	(366,027)	(534,783)	(1,748,503)
Other (expenses) income:				
Interest expense	(1,442,508)	(663,689)	(4,434,269)	(1,992,939)
Loss on extinguishment of debt	-	(291,995)	-	(442,574)
Change in fair value of derivative liability	2,389,203	(838,142)	4,308,272	(732,875)
Other income (expenses), net	9,639	(7,029)	(30,716)	(69,380)
Total other income (expenses)	956,334	(1,800,855)	(156,713)	(3,237,768)
(Loss) gain on extinguishment of accounts payable	-	(25,222)	-	2,883,660
Income (loss) before income taxes	162,582	(2,192,104)	(691,496)	(2,102,611)
(Benefit) provision for income taxes	(147,341)	-	25,737	-
Net income (loss)	309,923	(2,192,104)	(717,233)	(2,102,611)
Preferred stock dividends in arrears	(432,972)	(101,451)	(1,318,254)	(301,046)
Net (loss) applicable to common stockholders:	$ (123,049)	$ (2,293,555)	$ (2,035,487)	$ (2,403,657)
Basic loss per common share:	$ (0.02)	$ (0.52)	$ (0.29)	$ (0.61)
Diluted loss per common share:	$ (0.19)	$ (0.52)	$ (0.57)	$ (0.61)
Weighted average common shares outstanding:				
Basic	7,093,215	4,411,646	6,927,011	3,972,503
Diluted	7,093,215	4,411,646	6,927,011	3,972,503

Fusion Telecommunications International, Inc.
Consolidated Balance Sheets

	September 30, 2014	December 31, 2013
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 9,261,258	$ 6,176,575

Accounts receivable, net of allowance for doubtful accounts		6,157,584		5,828,389
Prepaid expenses and other current assets		915,443		2,704,787
Total current assets		16,334,285		14,709,751
Property and equipment, net		12,595,103		11,193,355
Other assets:				
Security deposits		601,969		585,083
Restricted cash		1,164,311		1,163,872
Goodwill		5,222,088		5,124,130
Intangible assets, net		30,018,204		35,048,818
Other assets		1,040,949		1,125,652
Total other assets		38,047,521		43,047,555
TOTAL ASSETS	$	66,976,909	$	68,950,661
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Notes payable - non-related parties	$	1,075,000	$	625,000
Notes payable - related parties		125,000		310,714
Equipment financing obligations		494,906		245,138
Escrow payable		-		295,000
Accounts payable and accrued expenses		9,235,483		11,161,550
Related party payable		-		226,148
Current liabilities from discontinued operations		55,000		55,000
Total current liabilities		10,985,389		12,918,550
Long-term liabilities:				
Notes payable - non-related parties, net of discount		36,385,000		36,788,987
Notes payable - related parties, net of discount		1,279,803		1,478,081
Equipment financing obligations		1,184,659		167,614
Derivative liability		4,693,198		10,515,472
Other long-term liabilities		25,500		131,627
Total liabilities		54,553,549		62,000,331
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 26,868 and 23,525 shares issued and outstanding		269		235
Common stock, $0.01 par value, 18,000,000 shares authorized, 6,493,097 and 6,077,071 shares issued and outstanding		64,930		60,770
Capital in excess of par value		172,811,664		166,625,595
Accumulated deficit		(160,453,503)		(159,736,270)
Total stockholders' equity		12,423,360		6,950,330
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	66,976,909	$	68,950,661

Fusion Telecommunications International, Inc. and Subsidiaries

Reconciliation of Net (Loss) Income to Adjusted EBITDA

(unaudited)

	Three Months Ended September 30,		***Nine Months Ended September 30,***	
	2014	***2013***	***2014***	***2013***
Net income (loss)	$ 309,923.00	$ (2,192,104.00)	$ (717,233.00)	$ (2,102,611.00)
Interest expenses and other financing costs	1,445,957	710,782	4,531,755	2,168,801
Provision for income taxes	(147,341)	1,887	25,737	1,887

Depreciation and amortization	2,830,728	911,614	7,996,196	2,634,112
Acquisition transaction expenses	125,044	37,432	271,791	39,615
Loss on extinguishment of debt	-	317,217	-	(2,441,086)
Change in fair value of derivative liability	(2,389,203)	838,142	(4,308,272)	732,875
Loss on disposal of property and equipment	37,887	2,374	122,261	2,374
Recapitalization expenses	7,500	-	82,850	-
Restructuring charges	-	7,654	-	41,717
One-time employee related expenses	20,280	-	183,348	175,000
One-time regulatory expenses	43,490	-	43,490	-
Stock-based compensation expense	119,602	66,061	299,284	205,556
Adjusted EBITDA	***$ 2,403,867***	***$ 701,059***	***$ 8,531,207***	***$ 1,458,240***

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 trademark of Fusion Telecommunications International, Inc. For more information, please visit www.fusionconnect.com.

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. These risks include the Company's ability to raise new capital to execute its comprehensive business strategy; the integration of businesses following an acquisition; the Company's ability to comply with 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 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.

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