UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______to_______

Commission file number 001-33449

TOWERSTREAM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**20-8259086**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
88 Silva Lane	**02842**
Middletown, Rhode Island	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code **(401) 848-5848**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of May 8, 2014, there were 66,445,044 shares of common stock, par value $0.001 per share, outstanding.

TOWERSTREAM CORPORATION AND SUBSIDIARIES

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TOWERSTREAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$ 21,205,943	$ 28,181,531
Accounts receivable, net	1,125,107	611,548
Prepaid expenses and other current assets	1,425,938	925,587
Total Current Assets	23,756,988	29,718,666
Property and equipment, net	37,911,826	38,484,858
Intangible assets, net	2,503,801	3,088,827
Goodwill	1,674,281	1,674,281
Other assets	1,873,799	1,950,835
Total Assets	$ 67,720,695	$ 74,917,467
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 756,211	$ 1,241,743
Accrued expenses	1,836,100	2,532,679
Deferred revenues	1,383,159	1,396,780
Current maturities of capital lease obligations	773,415	783,051
Other	70,970	67,255
Total Current Liabilities	4,819,855	6,021,508
Long-Term Liabilities		
Capital lease obligations, net of current maturities	1,606,683	1,805,336
Other	1,406,787	996,682
Total Long-Term Liabilities	3,013,470	2,802,018
Total Liabilities	7,833,325	8,823,526
Commitments (Note 13)		
Stockholders' Equity		
Preferred stock, par value $0.001; 5,000,000 shares authorized; none issued	-	-
Common stock, par value $0.001; 95,000,000 shares authorized; 66,445,044 and 66,424,561 shares issued and outstanding, respectively	66,445	66,425
Additional paid-in-capital	154,474,911	154,171,695
Accumulated deficit	(94,653,986)	(88,144,179)
Total Stockholders' Equity	59,887,370	66,093,941
Total Liabilities and Stockholders' Equity	$ 67,720,695	$ 74,917,467

The accompanying notes are an integral part of these condensed consolidated financial statements.

TOWERSTREAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2014	**2013**
Revenues	$ 8,379,906	$ 8,299,223
Operating Expenses		
Cost of revenues (exclusive of depreciation)	5,855,944	4,981,306
Depreciation and amortization	3,695,415	3,871,087
Customer support services	1,172,135	1,396,894
Sales and marketing	1,421,599	1,440,856
General and administrative	2,677,939	3,137,599
Total Operating Expenses	14,823,032	14,827,742
Operating Loss	(6,443,126)	(6,528,519)
Other Income/(Expense)		
Interest income	7,420	154
Interest expense	(70,471)	(35,768)
Gain on business acquisition	-	941,457
Other income (expense), net	(3,630)	(3,630)
Total Other Income/(Expense)	(66,681)	902,213
Net Loss	$ (6,509,807)	$ (5,626,306)
Net loss per common share – basic and diluted	$ (0.10)	$ (0.09)
Weighted average common shares outstanding – basic and diluted	66,439,061	61,464,706

The accompanying notes are an integral part of these condensed consolidated financial statements.

TOWERSTREAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
For the Three Months Ended March 31, 2014

	Common Stock		Additional Paid-In-Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2013	66,424,561	$ 66,425	$154,171,695	$ (88,144,179)	$ 66,093,941
Issuance of common stock under employee stock purchase plan	5,483	5	12,880	-	12,885
Issuance of common stock upon vesting of restricted stock awards	15,000	15	(15)	-	-
Stock-based compensation for options	-	-	290,351	-	290,351
Net loss	-	-	-	(6,509,807)	(6,509,807)
Balance at March 31, 2014	66,445,044	$ 66,445	$154,474,911	$ (94,653,986)	$ 59,887,370

The accompanying notes are an integral part of these condensed consolidated financial statements.

TOWERSTREAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash Flows From Operating Activities		
Net loss	$ (6,509,807)	$ (5,626,306)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	10,000	-
Depreciation for property, plant and equipment	3,110,389	3,118,487
Amortization for customer based intangibles	585,026	752,600
Stock-based compensation	292,269	396,481
Gain on business acquisition	-	(941,457)
Loss on sale and disposition of property and equipment	-	41,951
Deferred rent	70,761	(28,940)
Changes in operating assets and liabilities:		
Accounts receivable	(523,559)	62,074
Prepaid expenses and other current assets	(500,351)	(392,784)
Other assets	96,407	114,105
Accounts payable	(485,532)	(695,724)
Accrued expenses	(1,221,108)	(1,071,747)
Deferred revenues	(13,621)	(151,467)
Total Adjustments	1,420,681	1,203,579
Net Cash Used In Operating Activities	(5,089,126)	(4,422,727)
Cash Flows From Investing Activities		
Acquisitions of property and equipment	(2,012,828)	(696,813)
Lease incentive payment from landlord	380,000	-
Acquisition of a business, net of cash acquired	-	(222,942)
Proceeds from sale of property and equipment	-	1,000
Payments of security deposits	(19,371)	(18,344)
Deferred acquisition payments	(36,941)	(38,754)
Net Cash Used In Investing Activities	(1,689,140)	(975,853)
Cash Flows From Financing Activities		
Payments on capital leases	(208,289)	(192,310)
Issuance of common stock upon exercise of options	-	246,989
Issuance of common stock under employee stock purchase plan	10,967	20,157
Net proceeds from sale of common stock	-	30,500,836
Net Cash (Used In) Provided By Financing Activities	(197,322)	30,575,672
Net (Decrease) Increase In Cash and Cash Equivalents	(6,975,588)	25,177,092
Cash and Cash Equivalents – Beginning	28,181,531	15,152,226
Cash and Cash Equivalents – Ending	$ 21,205,943	$ 40,329,318
Supplemental Disclosures of Cash Flow Information		
Cash paid during the periods for:		
Interest	$ 70,471	$ 35,732
Taxes	$ 28,257	$ 28,262
Non-cash investing and financing activities:		
Fair value of common stock issued in connection with an acquisition	$ -	$ 1,071,172
Acquisition of property and equipment:		
Under capital leases	$ -	$ 80,894
Included in accrued expenses	$ 524,529	$ 549,258

The accompanying notes are an integral part of these condensed consolidated financial statements.

TOWERSTREAM CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Nature of Business

Towerstream Corporation (referred to as “Towerstream” or the “Company”) was incorporated in Delaware in December 1999. During its first decade of operations, the Company's business activities were focused on delivering fixed wireless broadband services to commercial customers over a wireless network transmitting over both regulated and unregulated radio spectrum. The Company's fixed wireless service supports bandwidth on demand, wireless redundancy, virtual private networks, disaster recovery, bundled data and video services. The Company provides services to business customers in New York City, Boston, Chicago, Los Angeles, San Francisco, Seattle, Miami, Dallas-Fort Worth, Houston, Philadelphia, Las Vegas-Reno and Providence-Newport. The Company's “fixed wireless business” has historically grown both organically and through the acquisition of five other fixed wireless broadband providers in various markets.

In January 2013, the Company incorporated a wholly-owned subsidiary, Hetnets Tower Corporation (“Hetnets”). Hetnets was formed to operate a new shared wireless infrastructure platform that emerged from the Company's efforts to identify opportunities to leverage its fixed wireless network in urban markets to provide other wireless technology solutions and services. Hetnets operates a carrier-class network which has been constructed on "street level rooftops" which are closer to the ground (where Wi-Fi and small cell can operate with less interference from the macro cell) than the Company's traditional fixed wireless network. The Company believes that the wireless communications industry is experiencing a fundamental shift from its traditional macro-cellular architecture to densified small cell architecture where existing cell sites will be supplemented by many smaller base stations operating near street level. Hetnets is structured to operate like a tower company and expects to generate rental income from four separate sources including (i) rental of space on street level rooftops for the installation of customer owned small cells which includes Wi-Fi antennae, DAS, and Metro and Pico cells, (ii) rental of a channel on Hetnets’ Wi-Fi network for internet access and the offloading of mobile data, (iii) rental of a port for backhaul or transport, and (iv) power and other related services. The Company refers to the activities of Hetnets as its “shared wireless infrastructure” (or “shared wireless”) business.

In June 2013, Hetnets entered into a Wi-Fi service agreement (the “Wi-Fi Agreement”) with a major cable operator (the “Cable Operator”). The Wi-Fi Agreement provides leased access to certain access points, primarily within New York City and Bergen County, New Jersey. The Cable Operator has a limited right to expand access in other Hetnets’ markets. The term of the Wi-Fi Agreement is for an initial three year period, and provides for automatic annual renewals for two additional years.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission. Accordingly, they do not contain all information and footnotes required by GAAP for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of March 31, 2014 and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results for the full fiscal year for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The Company’s accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2013, and updated, as necessary, in this Quarterly Report on Form 10-Q.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. As of March 31, 2014, the Company had cash and cash equivalent balances of approximately $5,946,000 in excess of the federally insured limit of $250,000.

The Company also had approximately $15,010,000 invested in institutional money market funds. These funds are protected under the Securities Investor Protection Corporation, a nonprofit membership corporation which provides limited coverage up to $500,000.

Accounts Receivable. Accounts receivable are stated at cost less an allowance for doubtful accounts which reflects the Company's estimate of balances that will be not collected. The allowance is based on the history of past write-offs, the aging of balances, collections experience and current credit conditions. Additions include provisions for doubtful accounts and deductions include customer write-offs. Changes in the allowance for doubtful accounts were as follows:

	Three Months Ended March 31,	
	2014	2013
Beginning of period	$ 81,009	$ 190,109
Additions	10,000	-
Deductions	(25,290)	(46,672)
End of period	$ 65,719	$ 143,437

Business Acquisitions. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration transferred on the acquisition date. When the Company acquires a business, it assesses the acquired assets and liabilities assumed for the appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. The excess of the total consideration transferred over the net identifiable assets acquired and liabilities assumed is recognized as goodwill. If the consideration is lower than the fair value of the identifiable net assets acquired, the difference is recognized as a gain on business acquisition. Acquisition costs are expensed and included in general and administrative expenses in our condensed consolidated statements of operations.

The highest level of judgment and estimation involved in accounting for business acquisitions relates to determining the fair value of the customer relationships and network assets acquired. In each of the five acquisitions completed over the past four years, the highest asset value has been allocated to the customer relationships acquired. Determining the fair value of customer relationships involves judgments and estimates regarding how long the customers will continue to contract services with us. During the course of completing five acquisitions, we have developed a database of historical experience from prior acquisitions to assist us in preparing future estimates of cash flows. Similarly, we have used our historical experience in building networks to prepare estimates regarding the fair value of the networks assets that we acquire.

Revenue Recognition. The Company normally enters into contractual agreements with its customers for periods ranging between one to three years. The Company recognizes the total revenue provided under a contract ratably over the contract period, including any periods under which the Company has agreed to provide services at no cost. The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery or installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is reasonably assured.

Deferred Revenues. Customers are billed monthly in advance. Deferred revenues are recognized for that portion of monthly charges not yet earned as of the end of the reporting period. Deferred revenues are also recognized for certain customers who pay for their services in advance.

Goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired in an acquisition. Goodwill is not amortized but rather is reviewed annually for impairment, or whenever events or circumstances indicate that the carrying value may not be recoverable. The Company initially performs a qualitative assessment of goodwill which considers macro-economic conditions, industry and market trends, and the current and projected financial performance of the reporting unit. No further analysis is required if it is determined that there is a less than 50 percent likelihood that the carrying value is greater than the fair value.

Recent Accounting Pronouncements. No accounting pronouncements adopted during the three months ended March 31, 2014 had a material impact on the Company's condensed consolidated financial statements. No new accounting pronouncements issued during the three months ended March 31, 2014 but not yet adopted are expected to have a material impact on the Company's condensed consolidated financial statements.

Reclassifications. Certain accounts in the prior year's condensed consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year condensed consolidated financial statements. These reclassifications have no effect on the previously reported net loss.

Subsequent Events. Subsequent events have been evaluated through the date of this filing.

Note 3. Business Acquisitions

Delos Internet

In February 2013, the Company completed the acquisition of Delos Internet ("Delos"). The Company obtained full control of Delos and determined that the acquisition was a business combination to be accounted for under the acquisition method. The following table summarizes the consideration transferred and the amounts of identified assets acquired and liabilities assumed at the acquisition date. The number of shares issued was based on the closing price of the Company's common stock on the February 28, 2013 closing date which was $2.47.

Fair value of consideration transferred:	Original	Adjustments	Final
Cash	$ 225,000	$ -	$ 225,000
Common stock	1,071,172	(119,916)	951,256
Other liabilities assumed	-	36,733	36,733
Capital lease obligations assumed	128,929	-	128,929
Total consideration transferred	1,425,101	(83,183)	1,341,918
Fair value of identifiable assets acquired and liabilities assumed:			
Cash	2,058	-	2,058
Accounts receivable	80,524	1,286	79,238
Property and equipment	826,524	18,824	807,700
Security deposits	1,993	-	1,993
Accounts payable	(26,970)	2,566	(29,536)
Deferred revenue	(62,110)	(2,135)	(59,975)
Other liabilities	(89,930)	-	(89,930)
Total identifiable net tangible assets	732,089	20,541	711,548
Customer relationships	1,634,469	-	1,634,469
Total identifiable net assets	2,366,558	20,541	2,346,017
Gain on business acquisition	$ 941,457	$ 62,642	$ 1,004,099

The Company recognized a gain on business acquisition of $941,457 which is included in other income (expense) in the Company's condensed consolidated statements of operations for the three months ended March 31, 2013. The challenging economic environment during 2012 made it difficult for smaller companies like Delos to raise sufficient capital to sustain their growth. As a result, the Company was able to acquire the customer relationships and wireless network of Delos at a discounted price.

In May 2013, the Company finalized the purchase price of Delos which resulted in a reduction of approximately $21,000 of identifiable net assets and an increase in the gain on business acquisition of approximately $63,000. The purchase price adjustment resulted in a decrease in the number of shares of common stock issued to Delos of 48,549 from 433,673 to 385,124 shares.

During the three months ended March 31, 2013, the Company incurred approximately $58,000 of third-party costs in connection with the Delos acquisition. These expenses are included in the general and administrative expenses in the Company's condensed consolidated statements of operations for the three months ended March 31, 2013.

Pro Forma Information

The following table reflects the unaudited pro forma consolidated results of operations had the acquisition taken place at the beginning of the 2013 period:

	Three Months Ended March 31, 2013
Revenues	$ 8,411,793
Amortization expense	817,979
Total operating expenses	14,999,721
Net loss	(5,685,715)
Basic net loss per share	$ (0.09)

The pro forma information presented above does not purport to present what actual results would have been had the acquisitions actually occurred at the beginning of 2013 and are not necessarily indicative of the operating results for any future period.

Note 4. Property and Equipment

Property and equipment is comprised of:

	March 31, 2014	December 31, 2013
Network and base station equipment	$ 33,092,603	$ 32,233,262
Customer premise equipment	24,838,433	24,244,017
Shared wireless infrastructure	20,098,809	19,128,064
Information technology	4,517,495	4,417,869
Furniture, fixtures and other	1,667,779	1,661,567
Leasehold improvements	1,441,001	1,433,984
	85,656,120	83,118,763
Less: accumulated depreciation	47,744,294	44,633,905
Property and equipment, net	$ 37,911,826	$ 38,484,858

Property acquired through capital leases included within the Company's property and equipment consists of the following:

	March 31, 2014	December 31, 2013
Network and base station equipment	$ 828,027	$ 828,027
Shared wireless infrastructure	1,216,142	1,216,142
Customer premise equipment	96,843	96,843
Information technology	1,860,028	1,860,028
	4,001,040	4,001,040
Less: accumulated depreciation	1,533,718	1,333,666
Property acquired through capital leases, net	$ 2,467,322	$ 2,667,374

Note 5. Intangible Assets

Intangible assets consist of the following:

	March 31, 2014	December 31, 2013
Goodwill	$ 1,674,281	$ 1,674,281
Customer relationships	$ 11,856,127	$ 11,856,127
Less: accumulated amortization of customer relationships	10,636,881	10,051,855
Customer relationships, net	1,219,246	1,804,272
FCC licenses	1,284,555	1,284,555
Intangible assets, net	$ 2,503,801	$ 3,088,827

Amortization expense for the three months ended March 31, 2014 and 2013 was $585,026 and $752,600, respectively. The customer contracts acquired in the Company's acquisition of Delos are being amortized over a 50 month period ending April 2017. As of March 31, 2014, the remaining amortization period for all acquisitions with customer relationship balances ranged from 1 to 37 months. Future amortization expense is expected to be as follows:

Remainder of 2014	$ 303,943
2015	392,272
2016	392,272
2017	130,759
	$ 1,219,246

The Company's licenses with the Federal Communications Commission (the "FCC") are not subject to amortization as they have an indefinite useful life.

Note 6. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2014	December 31, 2013
Property and equipment	$ 524,529	$ 867,311
Payroll and related	673,108	937,624
Professional services	241,345	186,917
Network	126,744	138,684
Marketing	94,842	108,741
Other	175,532	293,402
Total	$ 1,836,100	$ 2,532,679

Network expenses consist of costs incurred to provide services to our customers and includes tower rentals, bandwidth, troubleshooting and gear removal.

Note 7. Other Liabilities

Other liabilities consist of the following:

	March 31, 2014	December 31, 2013
Current		
Deferred rent	$ 37,935	$ -
Deferred acquisition payments	33,035	67,255
Total	$ 70,970	$ 67,255
Long-Term		
Deferred rent	$ 1,075,187	$ 662,361
Deferred acquisition payments	8,795	11,516
Deferred taxes	322,805	322,805
Total	$ 1,406,787	$ 996,682

Gross deferred acquisition payments related to the acquisition of Pipeline Wireless LLC ("Pipeline") in December 2010 totaled $33,261 and are payable in monthly installments of $16,630 through May 2014. The carrying value of these non-interest bearing payments were discounted rate at 12% and totaled $22,422 at March 31, 2014. Deferred acquisition payments related to Delos totaled $19,408 at March 31, 2014 and bear interest at rates ranging from 7% to 12.5%.

Note 8. Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to value options granted to employees, directors and consultants. Compensation expense, including the effect of forfeitures, is recognized over the period of service, generally the vesting period. Stock-based compensation totaled $290,351 and $378,205 for the three months ended March 31, 2014 and 2013, respectively. Stock-based compensation is included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

The unamortized amount of stock options expense totaled $1,398,465 as of March 31, 2014 which will be recognized over a weighted-average period of 2.1 years.

During the three months ended March 31, 2014, there were no stock options granted by the Company. The fair values of stock option grants during the three months ended March 31, 2013 were calculated on the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

	Three Months Ended March 31, 2013
Risk-free interest rate	0.8%
Expected volatility	68%
Expected life (in years)	5
Expected dividend yield	-
Weighted average per share grant date fair value	$ 1.46

The risk-free interest rate was based on rates established by the Federal Reserve. The Company's expected volatility was based upon the historical volatility for its common stock. The expected life of the Company's options was determined using the simplified method as a result of limited historical data regarding the Company's activity. The dividend yield is based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the foreseeable future.

Option transactions under the stock option plans during the three months ended March 31, 2014 were as follows:

	Number	Weighted Average Exercise Price
Outstanding as of December 31, 2013	4,055,016	$ 2.70
Granted during 2014	-	$ -
Exercised	-	$ -
Forfeited /expired	(35,000)	$ 2.31
Outstanding as of March 31, 2014	4,020,016	$ 2.70
Exercisable as of March 31, 2014	2,897,049	$ 2.45

Cancellations for the three months ended March 31, 2014 included 35,000 options related to employee terminations.

The weighted average remaining contractual life of the outstanding options as of March 31, 2014 was 5.8 years.

The intrinsic value of outstanding and exercisable options totaled $1,754,542 and $1,726,406, respectively, as of March 31, 2014. The intrinsic value is calculated as the difference between the closing price of the Company's common stock as of March 31, 2014, which was $2.35 per share, and the exercise price of the options.

The number of shares issuable upon the exercise of an option will be lower if a holder exercises on a cashless basis. Under a cashless exercise, the holder uses a portion of the shares that would otherwise be issuable upon exercise, rather than cash, as consideration for the exercise. The amount of net shares issuable in connection with a cashless exercise will vary based on the exercise price of the option compared to the current market price of the Company's common stock on the date of exercise.

Note 9. Stock Warrants

The 450,000 warrants outstanding and exercisable at March 31, 2014 and December 31, 2013 had an exercise price of $5.00 and expire in July 2016.

There was no intrinsic value associated with the outstanding and exercisable warrants as of March 31, 2014. The intrinsic value is calculated as the difference between the closing price of the Company's common stock as of March 31, 2014, which was $2.35 per share, and the exercise price of the warrants.

The number of shares issuable upon the exercise of a warrant will be lower if a holder exercises on a cashless basis. Under a cashless exercise, the holder uses a portion of the shares that would otherwise be issuable upon exercise, rather than cash, as consideration for the exercise. The amount of net shares issuable in connection with a cashless exercise will vary based on the exercise price of the warrant compared to the current market price of the Company's common stock on the date of exercise.

Note 10. Employee Stock Purchase Plan

Under the Company's 2010 Employee Stock Purchase Plan ("ESPP Plan"), participants can purchase shares of the Company's stock at a 15% discount. A maximum of 200,000 shares of common stock can be issued under the ESPP Plan of which 92,105 shares have been issued to date and 107,895 shares are available for future issuance. During the three months ended March 31, 2014, a total of 5,483 shares were issued under the ESPP Plan with a fair value of $12,885. The Company recognized $1,918 and $3,501 of stock-based compensation related to the 15% discount for the three months ended March 31, 2014 and 2013, respectively.

Note 11. Fair Value Measurement

Valuation Hierarchy

The accounting standard of the Financial Accounting Standards Board for fair value measurements establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Cash and cash equivalents are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short maturities. There were no changes in the valuation techniques during the three months ended March 31, 2014.

	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
March 31, 2014	$ 21,205,943	$ 21,205,943	$ -	$ -
December 31, 2013	$ 28,181,531	$ 28,181,531	$ -	$ -

Note 12. Net Loss Per Common Share

Basic and diluted net loss per share has been calculated by dividing net loss by the weighted average number of common shares outstanding during the period. All potentially dilutive common shares have been excluded since their inclusion would be anti-dilutive.

The following common stock equivalents were excluded from the computation of diluted net loss per common share because they were anti-dilutive. The exercise or issuance of these common stock equivalents outstanding at March 31, 2014 would dilute earnings per share if the Company becomes profitable in the future. The exercise of the outstanding stock options and warrants could potentially generate proceeds up to approximately $13,116,000 if exercised by the holder for cash.

Stock options	4,020,016
Warrants	450,000
Total	4,470,016

Note 13. Commitments

Operating Lease Obligations

The Company has entered into operating leases related to roof rights, cellular towers, office space, and equipment leases under various non-cancelable agreements expiring through December 2020. Certain of these operating leases include extensions, at the Company's option, for additional terms ranging from 1 to 25 years. Amounts associated with the extension periods have not been included in the table below as it is not presently determinable which options, if any, the Company will elect to exercise. As of March 31, 2014, total future operating lease obligations were as follows:

Remainder of 2014	$ 18,945,459
2015	17,296,665
2016	15,980,241
2017	10,476,902
2018	3,182,292
Thereafter	1,127,327
	$ 67,008,886

Rent expenses were as follows:

	Three Months Ended March 31,	
	2014	**2013**
Points of Presence	$ 1,845,246	$ 1,625,702
Street level rooftops	3,129,493	2,464,098
Corporate offices	84,109	123,758
Other	90,498	119,877
	$ 5,149,346	$ 4,333,435

Rent expenses related to Points of Presence, street level rooftops and other were included in cost of revenues in the Company's condensed consolidated statements of operations. Rent expense related to our corporate offices was included in general and administrative expenses in the Company's condensed consolidated statements of operations.

In September 2013, the Company entered into a new lease agreement for its corporate offices and new warehouse space. The lease commenced on January 1, 2014 and expires on December 31, 2019 with an option to renew for an additional five year term through December 31, 2024. The Company spent approximately $600,000 in leasehold improvements in connection with consolidating its corporate based employees from two buildings into one building. The Landlord agreed to contribute $380,000 in funding towards qualified leasehold improvements and made such payment to the Company in February 2014. Total annual rent payments begin at $359,750 for 2014 and escalate by 3% annually reaching $416,970 for 2019.

Capital Lease Obligations

The Company has entered into capital leases to acquire property and equipment expiring through March 2018. As of March 31, 2014, total future capital lease obligations were as follows:

Remainder of 2014	$ 734,919
2015	908,344
2016	655,754
2017	391,305
2018	53,923
	$ 2,744,245
Less: Interest expense	364,147
Total capital lease obligations	$ 2,380,098
Current	$ 773,415
Long-term	$ 1,606,683

Other

During the fourth quarter of 2013, the Company renewed a one year information technology infrastructure support agreement. The agreement became effective at the end of the first quarter of 2014. Payments of approximately $121,000 are due quarterly through the first quarter of 2015.

Note 14. Segment Information

The Company has two reportable segments: Fixed Wireless and Shared Wireless Infrastructure. Management evaluates performance and allocates resources based on the operating performance of each segment as well as the long-term growth potential for each segment. Costs reported for each segment include costs directly associated with a segment's operations. Intersegment revenues and expenses are eliminated in consolidation.

The balance of the Company's operations is in the Corporate group which includes centralized operations. This group includes operations related to corporate overhead and centralized activities which support our overall operations. Corporate overhead includes administrative personnel, including executive management, and other support functions such as information technology and facilities. Centralized operations include network operations, customer care, and the management of network assets. The Corporate group is treated as a separate segment consistent with how management monitors and analyzes financial results. Corporate costs are not allocated to the segments because such costs are managed and controlled on a functional basis that encompasses all markets, with centralized, functional management held accountable for corporate results. Management also believes that not allocating these centralized costs provides a better reflection of the direct operating performance of each segment. The table below presents information about our operating segments:

	Three Months Ended March 31, 2014 (Unaudited)				
	Fixed Wireless	Shared Wireless Infrastructure	Corporate	Eliminations	Total
Revenues	$ 7,685,526	$ 740,349	$ -	$ (45,969)	$ 8,379,906
Operating Expenses					
Cost of revenues (exclusive of depreciation)	2,498,693	3,388,951	14,269	(45,969)	5,855,944
Depreciation and amortization	2,537,873	940,938	216,604	-	3,695,415
Customer support services	268,515	176,190	727,430	-	1,172,135
Sales and marketing	1,263,137	76,750	81,712	-	1,421,599
General and administrative	108,425	146,528	2,422,986	-	2,677,939
Total Operating Expenses	6,676,643	4,729,357	3,463,001	(45,969)	14,823,032
Operating Income (Loss)	$ 1,008,883	$ (3,989,008)	$ (3,463,001)	$ -	$ (6,443,126)
Capital expenditures	$ 1,486,450	$ 938,053	$ 112,854	$ -	$ 2,537,357
As of March 31, 2014					
Property and equipment, net	$ 22,570,307	$ 12,832,453	$ 2,509,066	$ -	$ 37,911,826
Total assets	$ 28,562,095	$ 15,336,248	$ 23,822,352	$ -	$ 67,720,695

	Three Months Ended March 31, 2013 (Unaudited)				
	Fixed Wireless	Shared Wireless Infrastructure	Corporate	Eliminations	Total
Revenues	$ 8,186,736	$ 158,476	$ -	$ (45,989)	$ 8,299,223
Operating Expenses					
Cost of revenues (exclusive of depreciation)	2,334,145	2,650,885	42,265	(45,989)	4,981,306
Depreciation and amortization	2,819,609	864,112	187,366	-	3,871,087
Customer support services	275,075	244,522	877,297	-	1,396,894
Sales and marketing	1,296,941	47,048	96,867	-	1,440,856
General and administrative	146,897	190,184	2,800,518	-	3,137,599
Total Operating Expenses	6,872,667	3,996,751	4,004,313	(45,989)	14,827,742
Operating Income (Loss)	$ 1,314,069	$ (3,838,275)	$ (4,004,313)	$ -	$ (6,528,519)
Capital expenditures	$ 1,087,472	$ 136,200	$ 103,293	$ -	$ 1,326,965
As of March 31, 2013					
Property and equipment, net	$ 25,641,570	$ 13,275,065	$ 2,057,627	$ -	$ 40,974,262
Total assets	$ 34,427,109	$ 15,556,795	$ 42,494,289	$ -	$ 92,478,193

Note 15. Subsequent Events

In April 2014, Hetnets entered into a Wi-Fi Agreement with an international provider of Wi-Fi access services in major urban markets. This agreement provides leased access to access points within New York City, Chicago, San Francisco, and Miami. The term of the agreement is for an initial three year period, includes annual escalations of 2%, and provides for automatic annual renewals for two additional years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis summarizes the significant factors affecting our condensed consolidated results of operations, financial condition and liquidity position for the three months ended March 31, 2014. This discussion and analysis should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 and the condensed consolidated unaudited financial statements and related notes included elsewhere in this filing. The following discussion and analysis contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Forward-Looking Statements

Forward-looking statements in this Quarterly Report on Form 10-Q, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth and competition; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as "may,'' "will,'' "should,'' "could,'' "expects,'' "plans,'' "intends,'' "anticipates,'' "believes,'' "estimates,'' "predicts,'' "potential,'' or "continue'' or the negative of such terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. Readers are cautioned not to place too much reliance on these forward-looking statements which speak only as of the date hereof. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q.

Non-GAAP Measures and Reconciliations to GAAP Measures

We prepare our financial statements in accordance with generally accepted accounting principles ("GAAP"). We use certain Non-GAAP measures to monitor our business performance and that of our segments. These Non-GAAP measures are not recognized under GAAP. Accordingly, investors are cautioned about using or relying on these measures as alternatives to recognized GAAP measures. Our methods of calculating these measures may not be comparable to similar measures presented by other companies.

Characteristics of Revenues and Expenses

Our Fixed Wireless segment offers broadband services under agreements for periods normally ranging between one to three years. Pursuant to these agreements, we bill customers on a monthly basis, in advance, for each month of service. Payments received in advance of services performed are recorded as deferred revenues and recognized as revenue ratably over the service period. Our Shared Wireless Infrastructure segment offers to rent space, channels, and ports on our street level rooftops at a fixed monthly rent.

Costs of revenues consists of expenses that are directly related to providing services to our customers, including Core Network expenses (tower and street level rooftop rent and utilities, bandwidth costs, maintenance and other) and Customer Network expenses (customer maintenance, non-installation fees and other customer specific expenses). We collectively refer to Core Network and Customer Network as our "Network," and Core Network costs and Customer Network costs as "Network Costs." When we first enter a new market, or expand in an existing market, we are required to incur up-front costs in order to be able to provide services to commercial customers. We refer to these activities as establishing a "Network Presence." For the Fixed Wireless segment, these costs include constructing Points-of-Presence ("PoPs") in buildings in which we have a lease agreement ("Company Locations") where we install a substantial amount of equipment in order to connect numerous customers to the Internet. For the Shared Wireless Infrastructure segment, these costs include installing numerous access points, backhaul, and other equipment on street level rooftops that we refer to as "Hotzones." The costs to build PoPs and construct Hotzones are capitalized and expensed over a five year period. In addition, we also enter into tower and roof rental agreements, secure bandwidth and incur other Network Costs. Once we have established a Network Presence in a new market or expanded our Network Presence in an existing market, we are capable of servicing a significant number of customers through that Network Presence. The variable cost to add new customers is relatively modest, especially compared to the upfront cost of establishing or expanding our Network Presence. However, we may experience variability in gross margins during periods in which we are expanding our Network Presence in a market.

Sales and marketing expenses primarily consist of the salaries, benefits, travel and other costs of our sales and marketing teams, as well as marketing initiatives and business development expenses.

Customer support services include salaries and related payroll costs associated with our customer support services, customer care, and installation and operations staff.

General and administrative expenses include costs attributable to corporate overhead and the overall support of our operations. Salaries and other related payroll costs for executive management, finance, administration and information systems personnel are included in this category. Other costs include office rent, utilities and other facilities costs, accounting, legal and other professional services, and other general operating expenses.

Overview – Fixed Wireless

We provide fixed wireless broadband services to commercial customers and deliver access over a wireless network transmitting over both regulated and unregulated radio spectrum. Our service supports bandwidth on demand, wireless redundancy, virtual private networks, disaster recovery, bundled data and video services. We currently provide service to business customers in twelve metropolitan markets.

Market Information – Fixed Wireless

As of March 31, 2014, we operated in twelve metropolitan markets consisting of New York, Boston, Los Angeles, Chicago, San Francisco, Miami, Seattle, Dallas-Fort Worth, Houston, Philadelphia, Las Vegas-Reno and Providence-Newport. Although we provide services in multiple markets, these operations have been aggregated into one reportable segment based on the similar economic characteristics among all markets, including the nature of the services provided and the type of customers purchasing such services. The markets were launched at different times, and as a result, may have different operating metrics based on their size and stage of maturation. We incur significant up-front costs in order to establish a Network Presence in a new market. These costs include building PoPs and Network Costs. Other material costs include hiring and training sales and marketing personnel who will be dedicated to securing customers in that market. Once we have established a Network Presence in a new market, we are capable of servicing a significant number of customers. The rate of customer additions varies from market to market, and we are unable to predict how many customers will be added in a market during any specific period. We believe that providing operating information regarding each of our markets provides useful information to shareholders in understanding the leveraging potential of our business model and the operating performance of our mature markets. Set forth below is a summary of our operating performance on a per-market basis, and a description of how each category is determined.

Revenues: Revenues are allocated based on which market each customer is located in.

Costs of Revenues: Includes Core Network costs and Customer Network costs that can be allocated to a specific market.

Operating Costs: Represents costs that can be specifically allocated to a market which include direct sales personnel, certain direct marketing expenses, certain customer support and installation payroll expenses and third party commissions.

Corporate: Includes corporate overhead and centralized activities which support our overall operations. Corporate overhead includes administrative personnel, including executive management, and other support functions such as information technology and facilities. Centralized operations include network operations, customer care, and the management of network assets.

Shared Wireless Infrastructure, net: Represents the net operating results for that business segment.

Adjusted Market EBITDA: Represents a market's income (loss) before interest, taxes, depreciation, amortization, stock-based compensation, and other income (expense). We believe this metric provides useful information regarding the operating cash flow being generated in a market.

We entered the Houston market in February 2013 through the acquisition of Delos Internet ("Delos"). We exited the Nashville market effective March 31, 2014.

Three months ended March 31, 2014

Market	Revenues	Cost of Revenues	Gross Margin	Operating Costs	Adjusted Market EBITDA
New York	$ 1,916,030	$ 618,511	$ 1,297,519	$ 280,240	$ 1,017,279
Los Angeles	2,039,758	561,310	1,478,448	468,298	1,010,150
Boston	1,534,256	393,615	1,140,641	196,710	943,931
Chicago	725,062	293,659	431,403	141,098	290,305
Miami	369,061	102,474	266,587	95,102	171,485
Houston	172,815	57,939	114,876	17,899	96,977
Las-Vegas-Reno	255,897	121,485	134,412	42,321	92,091
San Francisco	276,040	127,678	148,362	90,561	57,801
Providence-Newport	80,285	47,555	32,730	1,575	31,155
Dallas-Fort Worth	166,657	93,483	73,174	49,131	24,043
Seattle	64,934	47,831	17,103	5,586	11,517
Philadelphia	36,858	20,510	16,348	14,872	1,476
Nashville	1,904	12,642	(10,738)	2,331	(13,069)
Total	$ 7,639,557	$ 2,498,692	$ 5,140,865	$ 1,405,724	$ 3,735,141

Reconciliation of Non-GAAP Financial Measure to GAAP Financial Measure	
Adjusted market EBITDA	$ 3,735,141
Fixed wireless, non-market specific	
Other expenses	(234,354)
Depreciation and amortization	(2,537,873)
Shared wireless infrastructure, net	(3,943,039)
Corporate	(3,463,001)
Other income (expense)	(66,681)
Net loss	$ (6,509,807)

Three months ended March 31, 2013

Market	Revenues	Cost of Revenues	Gross Margin	Operating Costs	Adjusted Market EBITDA
Los Angeles	$ 2,069,824	$ 529,767	$ 1,540,057	$ 411,463	$ 1,128,594
Boston	1,669,439	330,279	1,339,160	214,620	1,124,540
New York	1,885,865	599,099	1,286,766	336,437	950,329
Chicago	913,199	305,649	607,550	113,759	493,791
Las Vegas-Reno	388,174	131,925	256,249	56,555	199,694
Miami	377,347	99,261	278,086	84,025	194,061
San Francisco	302,629	100,840	201,789	85,926	115,863
Providence-Newport	127,368	49,141	78,227	18,345	59,882
Seattle	137,037	45,685	91,352	39,177	52,175
Houston	52,985	21,016	31,969	12,720	19,249
Dallas-Fort Worth	171,352	88,781	82,571	75,459	7,112
Philadelphia	39,940	18,037	21,903	22,528	(625)
Nashville	5,588	14,665	(9,077)	4,248	(13,325)
Total	$ 8,140,747	$ 2,334,145	$ 5,806,602	$ 1,475,262	$ 4,331,340

Reconciliation of Non-GAAP Financial Measure to GAAP Financial Measure	
Adjusted market EBITDA	$ 4,331,340
Fixed wireless, non-market specific	
Other expenses	(243,651)
Depreciation and amortization	(2,819,609)
Shared wireless infrastructure, net	(3,792,286)
Corporate	(4,004,313)
Other income (expense)	902,213
Net loss	$ (5,626,306)

Overview - Shared Wireless Infrastructure

Our Shared Wireless Infrastructure segment offers a range of rental options on street level rooftops related to (i) the installation of customer owned Small Cells, (ii) Wi-Fi access and the offloading of mobile data, and (iii) backhaul, power and other related telecommunications. To date, our operating activities have been primarily focused in New York City, and to a lesser degree, San Francisco, Chicago, and Southern Florida. Costs incurred to establish and operate this business segment include (a) rent payments under lease agreements which provide us with the right to install wireless technology equipment and (b) construction of a carrier-class network to deliver the services being offered by our shared wireless segment.

In June 2013, we entered into the Wi-Fi Agreement with a major cable operator (the "Cable Operator"). The Wi-Fi Agreement provides leased access to certain access points, primarily within New York City and Bergen County, New Jersey. The Cable Operator has a limited right to expand access in our other markets. The term of the Wi-Fi Agreement is for an initial three year period, and provides for automatic renewals for two additional years.

In April 2014, we entered into a Wi-Fi Agreement with an international provider of Wi-Fi access services in major urban markets. This agreement provides leased access to access points within New York City, Chicago, San Francisco, and Miami. The term of the agreement is for an initial three year period, includes annual escalations of 2%, and provides for automatic annual renewals for two additional years.

Supplemental Segment Information

Operating information about each segment in accordance with GAAP is disclosed in Note 14 of the financial statements. In addition, we use other non-GAAP measurements to assess the operating performance of each segment. These non-GAAP financial measures are commonly used by investors, financial analysts, and rating agencies. Management believes that these non-GAAP financial measures should be available so that investors have the same data that management employs in assessing our overall operations.

EBITDA, a non-GAAP financial measure, is calculated as net income (loss) before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization expenses, excluding when applicable, stock-based compensation, deferred rent expense, other non-operating income or expenses as well as gain or loss on (i) disposal of property and equipment, (ii) nonmonetary transactions, and (iii) business acquisitions.

Net Cash Flow is another commonly used non- GAAP financial measure. Net Cash Flow is defined as Adjusted EBITDA less capital expenditures.

Three Months Ended March 31, 2014

	Fixed Wireless	Shared Wireless Infrastructure	Corporate	Total
Operating Income (Loss)	$ 1,008,883	$ (3,989,008)	$ (3,463,001)	$ (6,443,126)
Depreciation and amortization	2,537,873	940,938	216,604	3,695,415
Stock-based compensation	-	-	292,269	292,269
Loss on non-monetary transactions	67,568	-	-	67,568
Deferred rent	6,753	72,815	(8,807)	70,761
Adjusted EBITDA	3,621,077	(2,975,255)	(2,962,935)	(2,317,113)
Less: Capital expenditures	1,486,450	938,053	112,854	2,537,357
Net Cash Flow	$ 2,134,627	$ (3,913,308)	$ (3,075,789)	$ (4,854,470)

Reconciliation of Adjusted EBITDA to Net Loss

Adjusted EBITDA	$ (2,317,113)
Depreciation and amortization	(3,695,415)
Stock-based compensation	(292,269)
Loss on non-monetary transactions	(67,568)
Deferred rent	(70,761)
Operating Income (Loss)	(6,443,126)
Interest income	7,420
Interest expense	(70,471)
Other income (expense), net	(3,630)
Net loss	$ (6,509,807)

Reconciliation of Net Cash Flow to Net Cash Used in Operating Activities

Net cash flow	$ (4,854,470)
Capital expenditures	2,537,357
Changes in operating assets and liabilities, net	(2,647,764)
Other, net	(124,249)
Net cash used in operating activities	$ (5,089,126)

Three Months Ended March 31, 2013

	Fixed Wireless	Shared Wireless Infrastructure	Corporate	Total
Operating Income (Loss)	$ 1,314,069	$ (3,838,275)	$ (4,004,313)	$ (6,528,519)
Depreciation and amortization	2,819,609	864,112	187,366	3,871,087
Stock-based compensation	-	-	396,481	396,481
Loss on property and equipment	39,227	2,724	-	41,951
Loss on non-monetary transactions	77,184	-	-	77,184
Non-recurring expenses, primarily acquisition-related	-	-	65,400	65,400
Adjusted EBITDA	4,250,089	(2,971,439)	(3,355,066)	(2,076,416)
Less: Capital expenditures	1,087,472	136,200	103,293	1,326,965
Net Cash Flow	$ 3,162,617	$ (3,107,639)	$ (3,458,359)	$ (3,403,381)

Reconciliation of Adjusted EBITDA to Net Loss

Adjusted EBITDA	$ (2,076,416)
Depreciation and amortization	(3,871,087)
Non-recurring expenses, primarily acquisition-related	(65,400)
Stock-based compensation	(396,481)
Loss on property and equipment	(41,951)
Loss on non-monetary transactions	(77,184)
Operating Income (Loss)	(6,528,519)
Interest income	154
Interest expense	(35,768)
Gain on business acquisition	941,457
Other income (expense), net	(3,630)
Net loss	$ (5,626,306)

Reconciliation of Net Cash Flow to Net Cash Used in Operating Activities

Net cash flow	$ (3,403,381)
Capital expenditures	1,326,965
Non-recurring expenses, primarily acquisition related	(65,400)
Changes in operating assets and liabilities, net	(2,135,543)
Other, net	(145,368)
Net cash used in operating activities	$ (4,422,727)

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Revenues. Revenues totaled $8,379,906 during the three months ended March 31, 2014 compared to $8,299,223 during the three months ended March 31, 2013 representing an increase of $80,683, or 1%. Shared Wireless revenues totaled $740,349 during the three months ended March 31, 2014 compared to $158,476 during the three months ended March 31, 2013 representing an increase of $581,873, or greater than 100%. Substantially all of the increase related to revenues associated with a Wi-Fi service agreement signed with a major cable operator in June 2013. Fixed Wireless segment revenues totaled $7,685,526 during the three months ended March 31, 2014 compared to $8,186,736 during the three months ended March 31, 2013 representing a decrease of $501,210, or 6%. The decrease principally related to a 4% decrease in monthly recurring billings, lower short term contract revenues, and higher than normal customer churn (as further described below).

Average revenue per user ("ARPU") for the Fixed Wireless segment totaled $758 as of March 31, 2014 compared to $727 as of March 31, 2013 representing an increase of $31, or 4%. ARPU for new customers totaled $636 during the quarter ended March 31, 2014 compared to $630 during the quarter ended March 31, 2013 representing an increase of $6, or 1%. The increase in ARPU primarily related to customers upgrading to higher bandwidth service which generates higher monthly recurring revenue.

Customer churn, calculated as a percent of revenue lost on a monthly basis from customers terminating or reducing their recurring service level, totaled 2.33% during the three months ended March 31, 2014 compared to 1.63% during the three months ended March 31, 2013. Our goal is to maintain churn levels between 1.40% and 1.70% which we believe is below industry averages of approximately 2.00%. Churn levels can fluctuate from quarter to quarter depending upon whether customers move to a location not serviced by the Company, go out of business, or a myriad of other reasons. Churn has averaged 1.70% over the past 36 months and we do not believe that the higher than targeted churn level experienced in the first quarter of 2014 is indicative of any long term business developments or trends. We have recently formed a customer retention department which has adopted an active communications program with our customers and believe that these efforts will return churn levels to our targeted range.

Cost of Revenues. Cost of revenues totaled $5,855,944 during the three months ended March 31, 2014 compared to $4,981,306 during the three months ended March 31, 2013 representing an increase of $874,638, or 18%. On a consolidated basis, gross margin during the three months ended March 31, 2014 was 30% as compared to 40% during the three months ended March 31, 2013 representing a decrease of 10 percentage points. Higher rent expense associated with both PoPs for the fixed wireless network and street level rooftops for the shared wireless infrastructure network increased cost of revenues by $209,455 and $714,214, respectively, and reduced gross margin by 2 and 9 percentage points, respectively. The increase for the fixed wireless network primarily related to lease amendments which provide for additional equipment to be installed for additional rent. The increase for the shared wireless network primarily related to a higher number of lease agreements in the 2014 period as compared to the 2013 period. These increases were partially offset by lower Customer Network and other costs which decreased by $49,031 and benefited gross margin by 1 percentage points. On a per market basis, the increase in cost of revenues is largely attributable to New York and Chicago which are two of the markets in which we have constructed a shared wireless infrastructure network. These two markets represented $699,793 or 80% of the total increase in cost of revenues for the three months ended March 31, 2014.

Depreciation and Amortization. Depreciation and amortization totaled $3,695,415 during the three months ended March 31, 2014 compared to $3,871,087 during the three months ended March 31, 2013 representing a decrease of $175,672, or 5%. Depreciation expense totaled $3,110,389 during the three months ended March 31, 2014 compared to $3,118,487 during the three months ended March 31, 2013 representing a decrease of $8,098, or less than 1%. The net base of assets subject to depreciation was approximately $40 million during both the three months ended March 31, 2014 and 2013 resulting in depreciation expense which was comparable for both periods.

Amortization expense totaled $585,026 during the three months ended March 31, 2014 compared to $752,600 during the three months ended March 31, 2013 representing a decrease of $167,574, or 22%. Amortization expense relates to customer related intangible assets recorded in connection with acquisitions and can fluctuate significantly from period to period depending upon the timing of acquisitions, the relative amounts of intangible assets recorded, and the amortization periods. The decrease was primarily related to the acquisition of One Velocity Inc. ("One Velocity") for which $232,953 of amortization expense was recognized in the 2013 period with zero recognized in the 2014 period as the related asset became fully amortized in November 2013. The decrease was partially offset by higher amortization expense associated with the Delos acquisition which was completed in February 2013, and for which $98,068 and $32,689 of expense was recorded in the 2014 and 2013 periods, respectively.

Customer Support Services. Customer support services totaled $1,172,135 during the three months ended March 31, 2014 compared to $1,396,894 during the three months ended March 31, 2013 representing a decrease of $224,759, or 16%. The decrease was primarily related to lower payroll costs as average headcount totaled 66 during the 2014 period as compared to 77 during the 2013 period.

Sales and Marketing. Sales and marketing expenses totaled $1,421,599 during the three months ended March 31, 2014 compared to $1,440,856 during the three months ended March 31, 2013 representing a decrease of $19,257, or 1%. Average headcount totaled 46 during the 2014 period as compared to 50 during the 2013 period representing a decrease of 4, or 8%.

General and Administrative. General and administrative expenses totaled $2,677,939 during the three months ended March 31, 2014 compared to $3,137,599 during the three months ended March 31, 2013 representing a decrease of $459,660, or 15%. Payroll costs totaled $989,291 during the 2014 period compared to $1,126,417 during the 2013 period representing a decrease of $137,126, or 12%. The decrease primarily related to non-recurring bonuses related to a corporate financing and an acquisition that were completed in the 2013 period that were not applicable during the 2014 period. Stock-based compensation totaled $292,269 during the 2014 period compared to $396,481 during the 2013 period representing a decrease of $104,212, or 26%. Stock-based compensation can fluctuate significantly from period to period depending on the timing, quantity and valuation of stock option grants. Professional services expenses totaled $374,609 during the 2014 period compared to $447,926 during the 2013 period representing a decrease of $73,317, or 16%. The decrease primarily related to non-recurring expenses associated with the formation of Hetnets which were incurred in the 2013 period. Finally, facility expenses totaled $98,083 during the 2014 period compared to $163,909 during the 2013 period representing a decrease of $65,826, or 40%. The decrease related to the consolidation of the Company's corporate offices which was completed in the fourth quarter of 2013.

Interest Income. Interest income totaled $7,420 during the three months ended March 31, 2014 compared to $154 during the three months ended March 31, 2013 representing an increase of $7,266, or greater than 100%. The increase relates to more interest earned on our cash accounts during the 2014 period.

Interest Expense. Interest expense totaled $70,471 during the three months ended March 31, 2014 compared to $35,768 during the three months ended March 31, 2013 representing an increase of $34,703, or 97%. The increase in interest expense was primarily related to additional capital leases for network equipment and information technology infrastructure.

Gain on Business Acquisition. There was no gain on business acquisition during the three months ended March 31, 2014 compared to $941,457 during the three months ended March 31, 2013. The gain in the 2013 period related to the acquisition of Delos in February 2013. The challenging economic environment during 2012 made it difficult for smaller companies like Delos to raise sufficient capital to sustain their growth. As a result, we were able to acquire the customer relationships and wireless network of Delos at a discounted price.

Net Loss. Net loss totaled $6,509,807 during the three months ended March 31, 2014 compared to $5,626,306 during the three months ended March 31, 2013 representing an increase of $883,501, or 16%. Revenues increased by $80,683, or 1%, while operating expenses decreased by $4,710, or less than 1%. In addition, non-operating expense totaled $66,681 during the three months ended March 31, 2014 compared with non-operating income, primarily related to gain on business acquisition, of $902,213 during the three months ended March 31, 2013.

Liquidity and Capital Resources

We have historically met our liquidity and capital requirements primarily through the public sale and private placement of equity securities and debt financing. Changes in capital resources during the three months ended March 31, 2014 and 2013 are described below.

Net Cash Used in Operating Activities. Net cash used in operating activities for the three months ended March 31, 2014 totaled $5,089,126 compared to $4,422,727 for the three months ended March 31, 2013 representing an increase of $666,399, or 15%. Cash used in operations for the three months ended March 31, 2014 totaled $2,441,362 as compared to $2,287,184 for the three months ended March, 31, 2013. Changes in operating assets and liabilities generally represent timing differences regarding payments and receipts, and are normally not indicative of operating results. Changes in operating assets and liabilities used cash of $2,647,764 during the three months ended March 31, 2014 compared to $2,135,543 for the three months ended March 31, 2013.

Net Cash Used in Investing Activities. Net cash used in investing activities for the three months ended March 31, 2014 totaled $1,689,140 compared to $975,853 for the three months ended March 31, 2013 representing an increase of $713,287, or 73%. Cash capital expenditures for the fixed wireless segment increased from $689,742 in the 2013 period to $1,307,376 in the 2014 period representing an increase of $617,634, or 90%. Cash capital expenditures for the shared wireless infrastructure segment increased from zero in the 2013 period to $701,501 in the 2014 period representing an increase of $701,501 or 100%. In addition, we received an incentive payment of $380,000 from our landlord in connection with entering a new lease agreement for our corporate offices. These funds were used to pay for qualified leasehold improvements to the facility. Finally, we paid cash of $225,000 for the acquisition of Delos in the 2013 period. There were no acquisitions in the 2014 period.

Net Cash (Used In) Provided by Financing Activities. Net cash used in financing activities for the three months ended March 31, 2014 totaled $197,322 compared to net cash provided by financing activities of $30,575,672 for the three months ended March 31, 2013, representing a decrease of $30,772,994, or greater than 100%. The decrease was primarily related to net proceeds of $30,500,836 received in the first quarter of 2013 from the sale of 11,000,000 shares of our common stock at a public offering of $3.00 per share.

Acquisition of Delos. In February 2013, we completed the acquisition of Delos which was based in the Houston, Texas area. The aggregate consideration for the acquisition included (i) approximately $225,000 in cash, (ii) 385,124 shares of common stock with a fair value of approximately $951,000 based on the market price of our common stock on the closing date, and (iii) approximately $166,000 in assumed liabilities. The acquisition of Delos was a business combination accounted for under the acquisition method.

Underwritten Offering. In the first quarter of 2013, we completed an underwritten offering of 11,000,000 shares of our common stock at a public offering price of $3.00 per share. The total gross proceeds of the offering were $33,000,000. Net proceeds were approximately $30,500,836 after underwriting discounts, commissions and offering expenses.

Working Capital. As of March 31, 2014, we had working capital of $18,937,133. Based on our current operating activities and plans, we believe our working capital position at the end of March 31, 2014 will enable us to meet our anticipated cash requirements for at least the next twelve months.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and other commitments as of March 31, 2014:

	Payments due by period						
	Total	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Capital leases	$ 2,744,245	$ 734,919	$ 908,344	$ 655,754	$ 391,305	$ 53,923	$ -
Operating leases	67,008,886	18,945,459	17,296,665	15,980,241	10,476,902	3,182,292	1,127,327
Deferred payments	33,261	33,261		-	-	-	-
Other	506,351	372,967	133,042	342	-	-	-
Total	$70,292,743	$20,086,606	$18,338,051	$16,636,337	$10,868,207	$ 3,236,215	$ 1,127,327

Capital Lease Obligations. We have entered into capital leases to acquire network, rooftop tower site and customer premise equipment expiring through March 2018.

Operating Leases. We have entered into operating leases related to roof rights, towers, office space, and equipment leases under various non-cancelable agreements expiring through December 2020. Certain of these operating leases include extensions, at our option, for additional terms ranging from 1 to 25 years. Amounts associated with the extension periods have not been included in the table above as it is not presently determinable which options, if any, we will elect to exercise.

Deferred Payments. We are making deferred payments to Pipeline as part of the consideration paid for the acquisition. There were 2 monthly payments of $16,630 remaining as of March 31, 2014.

Other. In December 2013, we entered into a one year information technology infrastructure support agreement. The agreement became effective at the end of the first quarter of 2014. The quarterly payments are approximately $121,000 and will be paid through the first quarter of 2015.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the financial statements, we utilize available information, including our past history, industry standards and the current economic environment, among other factors, in forming our estimates and judgments, giving appropriate consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates which may impact the comparability of our results of operations to other companies in our industry. We believe that of our significant accounting policies, the following may involve a higher degree of judgment and estimation, or are fundamentally important to our business.

Revenue Recognition. We normally enter into contractual agreements with our customers for periods ranging between one to three years. We recognize the total revenue provided under a contract ratably over the contract period including any periods under which we have agreed to provide services at no cost. Deferred revenues are recognized as a liability when billings are issued in advance of the date when revenues are earned. We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery or installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is reasonably assured.

Long-Lived Assets. Long-lived assets with definite lives consist primarily of property and equipment, and intangible assets such as acquired customer relationships. Long-lived assets are evaluated periodically for impairment or whenever events or circumstances indicate their carrying value may not be recoverable. Conditions that would result in an impairment charge include a significant decline in the fair value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists. If the asset is determined to be impaired, the impairment loss is measured based on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of their carrying value or net realizable value.

Business Acquisitions. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration transferred on the acquisition date. When we acquire a business, we assess the acquired assets and liabilities assumed for the appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. The excess of the total consideration transferred over the net identifiable assets acquired and liabilities assumed is recognized as goodwill. If the total consideration is lower than the fair value of the identifiable net assets acquired, the difference is recognized as a gain on business acquisition. Acquisition costs are expensed and included in general and administrative expenses in our condensed consolidated statements of operations.

The highest level of judgment and estimation involved in accounting for business acquisitions relates to determining the fair value of the customer relationships and network assets acquired. In each of the five acquisitions completed over the past four years, the highest asset value has been allocated to the customer relationships acquired. Determining the fair value of customer relationships involves judgments and estimates regarding how long the customers will continue to contract services with us. During the course of completing five acquisitions, we have developed a database of historical experience from prior acquisitions to assist us in preparing future estimates of cash flows. Similarly, we have used our historical experience in building networks to prepare estimates regarding the fair value of the networks assets that we acquire.

Goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired in an acquisition. Goodwill is not amortized but rather is reviewed annually for impairment, or whenever events or circumstances indicate that the carrying value may not be recoverable. We initially perform a qualitative assessment of goodwill which considers macro-economic conditions, industry and market trends, and the current and projected financial performance of the reporting unit. No further analysis is required if it is determined that there is a less than 50 percent likelihood that the carrying value is greater than the fair value.

Recent Accounting Pronouncements. No accounting pronouncements adopted during the three months ended March 31, 2014 had a material impact on our condensed consolidated financial statements. No new accounting pronouncements issued during the three months ended March 31, 2014 but not yet adopted are expected to have a material impact on our condensed consolidated financial statements.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements, financings, or other relationships with unconsolidated entities known as "Special Purposes Entities.''

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the potential loss arising from adverse changes in market rates and prices. Our primary market risk relates to interest rates. At March 31, 2014, all cash and cash equivalents are immediately available cash balances. A portion of our cash and cash equivalents are held in institutional money market funds.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act''). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective, as of March 31, 2014, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our system of internal control over financial reporting during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 6. Exhibits.

Exhibit No.	Description
31.1	Section 302 Certification of Principal Executive Officer.
31.2	Section 302 Certification of Principal Financial Officer.
32.1	Section 906 Certification of Principal Executive Officer.
32.2	Section 906 Certification of Principal Financial Officer.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Labels Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Definition Linkbase Document*

*Attached as Exhibit 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Stockholders' Equity, and (v) related notes to these financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOWERSTREAM CORPORATION

Date: May 12, 2014

By: /s/ Jeffrey M. Thompson

Jeffrey M. Thompson
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Joseph P. Hernon

Joseph P. Hernon
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

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Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey M. Thompson, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Towerstream Corporation for the quarter ended March 31, 2014;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ Jeffrey M. Thompson
Jeffrey M. Thompson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph P. Hernon, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Towerstream Corporation for the quarter ended March 31, 2014;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ Joseph P. Hernon
Joseph P. Hernon
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S. C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Towerstream Corporation, (the "Company") on Form 10-Q for the period ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey M. Thompson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2014

/s/ Jeffrey M. Thompson
Jeffrey M. Thompson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Towerstream Corporation, (the “Company”) on Form 10-Q for the period ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph P. Hernon, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2014

/s/ Joseph P. Hernon
Joseph P. Hernon
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)