

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, 2009

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: 001-32421

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

58-2342021

(IRS Employer Identification No.)

420 Lexington Avenue, Suite 1718, New York, New York

(Address of principal executive offices)

10170

(Zip Code)

(212) 201-2400

(Registrant's telephone number)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 Web site, 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 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 Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date: May 4, 2009.

Title Of Each Class	Number of Shares Outstanding
Common Stock, \$0.01 par value	57,388,590

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

	<u>MARCH 31, 2009</u>	<u>DECEMBER 31, 2008</u>
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 241,664	\$ 427,433
Accounts receivable, net of allowance for doubtful accounts of approximately \$504,000 and \$635,000 in 2009 and 2008, respectively	1,746,056	3,240,670
Prepaid expenses and other current assets	311,000	261,863
Assets held for sale	72,286	—
Current assets from discontinued operations	135,785	<u>302,533</u>
Total current assets	2,506,791	4,232,499
Property and equipment, net		
	3,325,598	<u>3,829,669</u>
Other assets:		
Security deposits	51,042	50,241
Restricted cash	416,566	416,566
Intangible assets, net	807,773	810,908
Other assets	50,852	<u>127,908</u>
Total other assets	1,326,233	1,405,623
TOTAL ASSETS	\$ 7,158,622	\$ 9,467,791
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Long-term debt, current portion – non-related parties	\$ 850,000	\$ 1,350,000
Long-term debt, current portion – related parties	2,672,992	1,012,992
Capital lease/equipment financing obligations, current portion	126,502	122,960
Accounts payable and accrued expenses	9,438,723	10,039,015
Current liabilities from discontinued operations	226,116	<u>261,972</u>
Total current liabilities	13,314,333	12,786,939
Long-term liabilities:		
Long-term debt, net of current portion- related parties	460,000	960,000
Capital lease/equipment financing obligations, net of current portion	12,506	—
Other long-term liabilities	438,684	<u>485,431</u>
Total long-term liabilities	911,190	1,445,431
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred Stock, \$0.01 par value, 10,000,000 shares authorized, 7,995 shares issued and outstanding in 2009 and 2008, respectively	80	80
Common Stock, \$0.01 par value, 175,000,000 shares authorized 50,318,888 and 45,750,003 shares issued and outstanding in 2009 and 2008, respectively	503,189	457,500
Capital in excess of par value	125,042,772	124,384,568
Accumulated deficit	(132,612,942)	<u>(129,606,727)</u>
Total stockholders' equity (deficit)	(7,066,901)	(4,764,579)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 7,158,622	\$ 9,467,791

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**THREE MONTHS ENDED MARCH 31,**

	2009	2008
	(unaudited)	(unaudited)

Revenues	\$ 9,002,300	\$ 11,207,002
Operating expenses:		
Cost of revenues, exclusive of depreciation and amortization shown separately below	8,467,891	10,481,360
Depreciation and amortization	489,471	447,680
Selling, general and administrative expenses (includes approximately \$35,000 and \$114,000 non-cash compensation for 2009 and 2008, respectively)	2,470,280	2,953,464
Advertising and marketing	7,496	11,452
Total operating expenses	<u>11,435,138</u>	<u>13,893,956</u>
Operating loss	<u>(2,432,838)</u>	<u>(2,686,954)</u>
Other income (expenses):		
Interest income	159	1,731
Interest expense	(95,940)	(17,390)
Gain on settlement of debt	—	634,991
Other	2,215	(1,237)
Total other income (expenses)	<u>(93,566)</u>	<u>618,095</u>
Loss from continuing operations	(2,526,404)	(2,068,859)
Discontinued operations:		
Income (loss) from discontinued operations	<u>(479,811)</u>	<u>(294,130)</u>
Net loss	<u>\$ (3,006,215)</u>	<u>\$ (2,362,990)</u>
Loss applicable to common stockholders:		
Loss from continuing operations	\$ (2,526,404)	\$ (2,068,859)
Preferred stock dividends in arrears	(157,710)	(159,462)
Net loss from continuing operations applicable to common stockholders:	(2,684,114)	(2,228,321)
Loss from discontinued operations	(479,811)	(294,130)
Net loss applicable to common stockholders	<u>\$ (3,163,925)</u>	<u>\$ (2,522,451)</u>
Basic and diluted net loss per common share:		
Loss from continuing operations	\$ (0.06)	\$ (0.07)
Income (loss) from discontinued operations	(0.01)	(0.01)
Net loss applicable to common stockholders	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding:		
Basic and diluted	<u>48,005,246</u>	<u>32,818,945</u>

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**THREE MONTHS ENDED MARCH 31,**

	2009	2008
	(unaudited)	(unaudited)

Cash flows from operating activities:		
Net loss	\$ (3,006,215)	\$ (2,362,990)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on impairment/discontinued operations	160,455	—
Depreciation and amortization	489,470	447,680
Bad debt expense	125,938	30,000
Non—cash compensation expense	34,945	114,347
Gain on extinguishment of debt	—	(634,991)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	1,368,676	1,947,118
Prepaid expenses and other current assets	(105,066)	19,517
Other assets	54,647	12,265
Accounts payable and accrued expenses	(600,292)	(265,195)
Other long-term liabilities	(46,747)	(42,095)
Net cash used in operating activities	(1,524,189)	(734,343)
Cash flows from investing activities:		
Purchase of property and equipment	(13,848)	(170,439)
(Payment) for security deposits	(801)	(1,519)
Returns of other intangible assets	2,639	—
Net cash used in investing activities	(12,010)	(171,958)
Cash flows from financing activities:		
Proceeds from sale of Common Stock, net	668,948	1,787,063
Proceeds from notes payable — related parties	660,000	—
Payments of long-term debt and capital lease /equipment financing obligations	(7,952)	(61,230)
Repayments of notes payable - related parties	—	(221,767)
Net cash provided by financing activities	1,320,996	1,504,066
Net increase (decrease) in cash and cash equivalents from continuing operations	(215,203)	597,765
Cash flows from discontinued operations:		
Cash provided by (used in) operating activities of discontinued operations	29,434	25,065
Cash provided by (used in) investing activities of discontinued operations	—	7,470
Net increase (decrease) in cash and cash equivalents from discontinuing operations	29,434	32,535
Net increase (decrease) in cash and equivalents from continuing and discontinuing operations:	(185,769)	630,300
Cash and cash equivalents, beginning of year	427,433	70,883
Cash and cash equivalents, end of year	\$ 241,664	\$ 701,183
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 32,437	\$ 5,536
Supplemental schedule of non—cash investing and financing activities:		
Acquisition of capital lease/equipment financing obligations	\$ 24,000	\$ —
Note transfer to a related party from a non—related party	\$ (500,000)	\$ —
Note transfer from a non—related party to a related party	\$ 500,000	\$ —

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation, Consolidation, and Summary of Selective Significant Accounting Policies

The accompanying notes to the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report on [Form 10-K](#) for the fiscal year ended December 31, 2008 for Fusion Telecommunications International, Inc. and its Subsidiaries (collectively, the "Company"). All material intercompany balances and transactions have been eliminated in consolidation. These Condensed Interim Financial Statements have been prepared in accordance with instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission (the, "SEC") and therefore, omit or condense certain footnotes and other information normally included in the Condensed Consolidated Interim Financial Statements prepared in accordance with accounting principles generally accepted in the United States (the "U.S."). In the opinion of the Company's management, all adjustments (consisting of normal recurring accruals) considered necessary for fair Condensed Consolidated Interim Financial Statement presentation have been made. The results of operations for an interim period may not give true indication of the results for the entire year.

During the three months ended March 31, 2009 and 2008, comprehensive loss was equal to the net loss amounts presented for the respective periods in the accompanying Condensed Consolidated Interim Statements of Operations.

Income taxes

The Company complies with Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and the tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. The Company adopted the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 creates a single accounting and disclosure model for uncertain tax positions, provides guidance on the minimum threshold that a tax uncertainty is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company, both those deemed to be routine as well as those for which there may be a high degree of uncertainty.

Earnings (loss) per Share

SFAS No. 128, "Earnings per Share," requires dual presentation of basic and diluted loss per share for all periods presented. Basic loss per share excludes dilution and is computed by dividing income available to Common Stockholders by the weighted-average number of Common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in the income of the Company.

Unexercised Stock Options to purchase 5,178,797 and 4,338,138 shares of the Company's Common Stock as of March 31, 2009 and 2008, respectively, were not included in the computation of diluted loss per share because the exercise of the Stock Options would be anti-dilutive to loss per share.

Unexercised Warrants to purchase 21,463,043 and 15,827,780 shares of the Company's Common Stock as of March 31, 2009 and 2008, respectively, were not included in the computation of diluted loss per share because the exercise of the Warrants would be anti-dilutive to loss per share.

Net loss per share calculations include provisions for Preferred Stock dividend, in the amount of approximately \$158,000 and \$160,000 for the three months ended March 31, 2009 and 2008 respectively. As of March 31, 2009, the Board of Directors had declared no dividend. As of March 31, 2009, the Company has accumulated approximately \$1,336,316 of Preferred Stock dividends.

Accounting for Costs Associated with Exit or Disposal Activities

The Company records restructuring activities, including costs for one-time termination benefits, in accordance with FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Employee termination benefits covered by existing benefit arrangements are recorded in accordance with FASB Statement No. 112, Employers' Accounting for Postemployment Benefits — an amendment of FASB Statement No. 5 and 43 and FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits. Employee termination costs are recorded when actions are probable and estimable. Asset impairment costs are recorded in accordance with FASB Statement No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets.

Stock-Based Compensation

The Company accounts for Stock-Based Compensation under the provisions of the SFAS No. 123 (revised 2004) and the Share-Based Payment, (SFAS No.123R). The impact on the Company's consolidated results of operations of recording Stock-Based Compensation expense for the three-months ended March 31, 2009 and 2008, was approximately \$35,000 and \$114,000, respectively which is included in selling, general and administrative expenses in the Condensed Consolidated Interim Statements Of Operations.

The following table summarizes Stock Option activity for the three months ended March 31, 2009:

Activity	Number of Options	(unaudited)	
		Weighted Average Exercise Price	
Outstanding at January 1, 2009	4,096,609	\$	1.72
Granted	1,238,000	\$	0.11
Cancelled or expired	(155,805)	\$	0.71
Outstanding at March 31, 2009	5,178,804	\$	1.36
Exercisable at March 31, 2009	2,717,718	\$	2.30

The Company calculated the fair value of each Common Stock Option grant on the date of grant using the Black-Scholes option pricing model method with the following assumptions:

	(unaudited)	
	Three Months Ended March 31,	
	2009	2008
Dividend yield	0.0 %	0.0 %
Stock volatility	129.55 %	94.3 %
Average Risk-free interest rate	2.03 %	2.79 %
Average option term (years)	4	4

As of March 31, 2009, there was approximately \$190,575 of total unrecognized compensation cost, net of estimated forfeitures, related to Stock Options granted under our Stock Incentive Plans, which is expected to be recognized over a weighted-average period of 2.25 years.

Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," approximate their carrying amount presented in the accompanying consolidated condensed balance sheets, due to their short-term maturities.

Use of Estimates

The preparation of the Condensed Consolidated Interim Financial Statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. Going Concern

At March 31, 2009, the Company had a working capital deficit of approximately \$10,808,000 and an accumulated deficit of approximately \$132,613,000. The Company has continued to sustain losses from operations. In addition, the Company has not generated positive cash flow from operations since inception. Management is aware that its current cash resources are not adequate to fund its operations for the remainder of the year. During the three months ended March 31, 2009, the Company raised \$669,000 net of expenses from sale of its securities through private placement. The Company cannot make any guarantees if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company's ability to continue operations as a going concern. No adjustment has been made in the Condensed Consolidated Interim Financial Statements to the amounts and classification of assets and liabilities, which could result, should the Company be unable to continue as a going concern.

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at March 31, 2009 and December 31, 2008:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
	<u>(unaudited)</u>	
Prepaid expenses	\$ 299,126	\$ 241,909
Inventory	8,874	16,954
Notes receivables	3,000	3,000
Total	<u>\$ 311,000</u>	<u>\$ 261,863</u>

4. Discontinued Operations

In an effort to streamline operations, reduce expenses, and focus efforts on the development of the Company's Corporate and Carrier sales, the Company determined to eliminate the consumer product line of its retail segment and restructure its overall operations. The Company's Board of Directors authorized this restructuring at a Board Meeting held on February 17, 2009. As a result of this action, the three international offices, reported under its Dubai subsidiary, will be closed, and twenty-six employees and eleven consultants will be terminated. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has classified the operating results of its Dubai subsidiary as a discontinued operation in the accompanying Condensed Consolidated Interim Financial Statements. The March 31, 2009, and 2008, financial statements have been adjusted for these discontinued operations. These discontinued operations affect only the Company's Consumer segment.

The following table represents the assets and liabilities of the discontinued operations as of March 31, 2009 and December 31, 2008:

	<u>March 31,</u>	<u>December 31,</u>
	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	
Cash and cash equivalents	\$ 23,019	\$ 30,813
Accounts receivable, net of allowance for doubtful accounts	91,791	90,237
Prepaid expenses and other current assets	18,333	68,105
Property and equipment, net	1,123	111,859
Other assets	1,519	1,519
Total current assets reclassified to discontinued operations	<u>\$ 135,785</u>	<u>\$ 302,533</u>
Accounts payable and accrued expenses	\$ 212,802	\$ 248,658
Total current liabilities reclassified to discontinued operations	<u>\$ 212,802</u>	<u>\$ 248,658</u>

The following is a summary of the operating results of the discontinued operations as of March 31, 2009 and 2008:

	(unaudited)	
	Three Months Ended March 31,	
	2009	2008
Revenues	\$ 283,318	\$ 322,814
Cost of revenues	(232,844)	(226,614)
Depreciation and amortization	(9,278)	(13,997)
Loss on impairment of assets	(160,352)	—
Selling, general and administrative	(357,910)	(357,347)
Advertising and marketing	(2,749)	(17,939)
Other income (expense)	4	(1,047)
Net income (loss)	\$ (479,811)	\$ (294,130)

5. Intangible Assets

Identifiable intangible assets, as of March 31, 2009, are composed of:

	INTELLECTUAL		
	TRADEMARKS	PROPERTY	TOTALS
Balance as of January 01, 2009	721,871	89,037	810,908
Current year amortization	(495)	—	(495)
Current year adjustments	—	(2,640)	(2,640)
Balance as of March 31, 2009	721,376	86,397	807,773

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at March 31, 2009 and December 31, 2008:

	MARCH 31, 2009	DECEMBER 31,
	(unaudited)	2008
Trade accounts payable	\$ 7,586,338	\$ 8,162,514
Accrued expenses	908,771	944,443
Accrued payroll and vacation	215,021	200,472
Cost accrual	119,677	274,185
Interest payable	171,444	110,473
Deferred revenue	267,608	186,655
Other	169,864	160,273
	\$ 9,438,723	\$ 10,039,015

7. Long-Term Debt and Capital Lease/Equipment Financing Obligations

At March 31, 2009 and December 31, 2008, components of long-term debt and capital lease/equipment financing obligations of the Company are comprised of the following:

	<u>MARCH 31, 2009</u> <u>(unaudited)</u>	<u>DECEMBER 31,</u> <u>2008</u>
Promissory notes payable – related parties	\$ 3,132,992	\$ 1,972,992
Promissory notes payable – non-related parties	850,000	1,350,000
Capital lease/equipment financing obligations	<u>139,008</u>	<u>122,960</u>
Total long-term debt and capital lease/equipment financing obligations	4,122,000	3,445,952
Less portion – capital lease/equipment financing obligations	(126,502)	(122,960)
Less current portion – related parties	(2,672,992)	(1,012,992)
Less current portion – non-related parties	<u>(850,000)</u>	<u>(1,350,000)</u>
	<u>\$ 472,506</u>	<u>\$ 960,000</u>

Promissory Notes Payable – non-related parties

During February 2004, the Company entered into a settlement agreement with a vendor for \$600,000. In the same month, the Company paid \$450,000 under the agreement and agreed to make 12 monthly payments for the remaining \$150,000. The promissory note has not been repaid as of March 31, 2009, as the other party to the settlement agreement has not complied with the terms of the agreement.

During 2008, the Company borrowed an aggregate of \$1,200,000 from several shareholders. These loans are evidenced by five (5) promissory notes, which mature upon various dates throughout 2008 extending until June of 2009 and bears interest rates ranging from 10 percent (10%) to twelve percent (12%) per annum. In January 2009, one of these promissory notes in an amount of \$500,000 was transferred to a related party of the Company. In the event that any note is not repaid by the maturity date, that note will automatically convert to a demand note, and the principal sum and all accrued interest for that note will be payable in full upon ten days notice from the lender. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. During 2008 and through the date of this filing, three of these promissory notes became due; however, none of the holders of these notes has made a demand for payment. The proceeds of these loans were used primarily for general corporate purposes.

Promissory Notes Payable – related parties

The proceeds of these loans were used primarily for general corporate purposes.

On December 3, 2007, December 18, 2007, and December 19, 2007, the Company borrowed an aggregate of \$540,000 from two Directors: Philip Turits, and Marvin Rosen. These loans are evidenced by three (3) promissory notes each of which are payable in 24 equal monthly installments of principal and interest at the rate of ten (10%) per annum, commencing January 4, 2008, January 18, 2008 and January 19, 2008 respectively, provided that the lenders have the right to demand payment of all unpaid principal and interest at any time after December 4, 2008, December 18, 2008 and December 19, 2008, respectively. The Company's obligations under the promissory notes are collateralized by a security interest in the Company's accounts receivables. The proceeds of these loans were used primarily for general corporate purposes. As of March 31, 2009, approximately \$353,000 is due under these promissory notes.

During 2008, the Company borrowed an additional \$590,000 from these two directors, evidenced by nine (9) promissory notes, which matured at different dates throughout 2008 and bears interest at the rate of ten (10%) per annum. During the year ended December 31, 2008, \$80,000 was repaid. Each promissory note provides that (a) it shall constitute an event of default if the Maker shall fail to make any payment when due as set forth therein, and (b) in the event of default, the Maker will have ten (10) days to cure after written notice is received. The Company did not pay these promissory notes on the maturity date; however, no lender has made a demand for payment. Each note also grants the lender a collateralized security interest from the Company's accounts receivable. The proceeds of these loans were used primarily for general corporate purposes. At March 31, 2009, approximately \$510,000 is due under these promissory notes.

During 2008, the Company borrowed an aggregate of \$1,760,000 from West End Special Opportunities Fund II, who is a shareholder of the Company. These loans are evidenced by nine (9) promissory notes each bearing interest at rates ranging from ten (10%) to thirteen (13%) with maturities extending through February 2010. During 2008, the Company repaid two of these promissory notes (\$250,000) and converted two additional promissory notes (\$400,000) into 2,222,223 shares of common stock and 888,890 warrants to purchase one share of common stock. In the event that any note is not repaid by the maturity date, that note will automatically convert to a demand note, and the principal sum and all accrued interest for that note will be payable in full upon ten days notice from the lender. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. The proceeds of these loans were used primarily for general corporate purposes. At March 31, 2009, approximately \$1,110,000 is due under these promissory notes.

During 2009, the Company borrowed an aggregate of \$1,160,000 from West End Special Opportunities Fund II, who is a shareholder of the Company. These loans are evidenced by seven (7) promissory notes each bearing an interest rate of twelve percent (12%) with maturities extending through May 2010. In the event that any note is not repaid by the maturity date, that note will automatically convert to a demand note, and the principal sum and all accrued interest for that note will be payable in full upon ten days notice from the lender. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. The proceeds of these loans were used primarily for general corporate purposes. At March 31, 2009, approximately \$1,160,000 is due under these promissory notes.

Capital Lease/Equipment Financing Obligations

Future aggregate principal payments for the Company's capital lease / equipment financing obligations as of March 31, 2009 (unaudited), are as follows:

Total minimum payments	\$ 146,610
Less amount representing interest	<u>(7,602)</u>
Present value of minimum payments	139,008
Less current portion	<u>126,502</u>
	<u>\$ 12,506</u>

8. Equity Transactions

Common Stock

The proceeds of the offering(s) were used primarily for general corporate purposes.

In January 2009, the Company entered into subscription agreements with four (4) accredited investors, including two (2) directors, Marvin S. Rosen and Philip D. Turits for the sale of an aggregate 2,106,213 shares of Common Stock and five-year warrants to purchase 842,491 shares of Common Stock, in consideration for an aggregate of \$0.4 million. The warrants have exercisable prices that range from \$0.20 to \$0.22, which is equal to the respective closing price of the Company's Common Stock on the business day before each closing. Following these transactions, the Private Placement entered into in July of 2008 was closed.

In February 2009, the Company commenced a new private placement to raise working capital for the Company's operations. This private placement provides for the sale of up to \$6 million of the Company's Common Stock. As of March 31, 2009, the Company has sold 2,112,672 shares of Common Stock for which proceeds of approximately \$0.3 million were received, net of expenses of approximately \$4,000. In addition, the Company issued five-year Warrants to purchase 845,073 shares of Common Stock at an exercisable price of 120% of the closing price of the Company's Common Stock the day before closing.

In February 2009, the Company entered into a Service Agreement with an investor relations company. This investor relations company agreed to act as the Company financial advisor for its finance, shareholder relations, and acquisition program for a one-year period; the compensation included a monthly fee and the issuance of 350,000 Restricted Common Stock shares.

Preferred Stock

As of March 31, 2009, the Company has authorized 10,000,000 shares of its stock for the issuance of Preferred Stock. As of March 31, 2009 there were 7,995 shares of Preferred Stock (Series A—1 to A—4) issued and outstanding.

Preferred Stock Dividends

The holders of the Series A-1, A-2, A-3 and A-4 Preferred Stock are entitled to receive cumulative dividends of 8% per annum payable in arrears, when and as declared by the Company's Board of Directors, on January 1 of each year, commencing on January 1, 2008. As of March 31, 2009, no dividend had been declared by the Board of Directors.

9. Recently Issued Accounting Policies

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20", the FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether any other-than-temporary impairment (OTTI) has occurred. The FSP eliminates the requirement that a holder's best estimate of cash flows be based upon those that "a market participant" would use, instead, the FSP requires that another-than-temporary impairment (OTTI) be recognized as a realized loss through earnings as a realized loss when it is "probable" there has been an adverse change in the holder's estimated cash flows from the cash flows previously projected. The FSP is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, to amend and clarify the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under FAS No. 141(R), Business Combinations. Under the new guidance, assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. The FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FAS 141(R)-1 did not have a material impact the Company's Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("the FSP"). The FSP requires disclosures about fair value of financial instruments whenever summarized financial information for interim reporting periods is presented. Entities shall disclose the methods and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in methods and significant assumptions, if any, during the period. Companies should also provide qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The FSP is Effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of FASB Staff Position FAS 107-1 and APB 28-1 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments". FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security, or (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing another-than-temporary impairment. Companies must follow the guidelines established by FSP to determine if another-than-temporary impairment of a debt security has occurred. FSP FAS 115-2 and FAS 124-2 are effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

10. Commitments and Contingencies

Legal Matters

The Company is from time to time involved in claims and legal actions arising in the ordinary course of business. Management does not expect that the outcome of these cases will have a material effect on the Company's financial position.

Due to the regulatory nature of the industry, the Company periodically receives and responds to various correspondence and inquiries from state and federal regulatory agencies. Management does not expect the outcome on these inquiries to have a material impact on our operations or financial condition.

Restricted Cash

As of March 31, 2009 and December 31, 2008, the Company had approximately \$417,000, of cash restricted from withdrawal and held by banks as certificates of deposit securing letters of credit. This restricted cash is required as security deposits of the Company's non-cancelable operating leases for office facilities and to secure a license to do business.

11. Segment Information

The Company complies with the reporting requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" SFAS No. 131 requires disclosures of segment information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company has two reportable segments that it operates and manages which are organized by products and services. The Company measures and evaluates its reportable segments based on revenues and cost of revenues. This segment income excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that the Executive Officers exclude in assessing business unit performance due primarily to their non-operational and/or non-recurring nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Each segment is managed according to the products, which are provided to the respective customers, and information is reported based on reporting to the respective Company's Chief Operating Decision Maker. The Company's segments and their principal activities consist of the following:

Carrier Services

Carrier Services includes VoIP to Carriers, which is the termination of voice telephony minutes by the Internet rather than older circuit-switched technology. VoIP permits a less costly and more rapid interconnection between our network and international telecommunications carriers. Traditional termination of voice telephony minutes from or to the countries served by the Company utilizes Time Division Multiplexing (TDM) and "circuit-switched" technology. Typically, this will include interconnection with traditional telecommunications carriers either located internationally or those carriers that interconnect with us at their U.S. Points of Presence (POP) and provide service to other destinations. These minutes are sold to carriers on a wholesale basis.

Consumers, Corporations, and Other

The Company provides VoIP services targeted to end-users and corporations and provides Internet connectivity to telecommunications carriers, Internet service providers, government entities, and multinational customers via its POPs in the U.S. and through its partners elsewhere

The Company employs engineering and operations resources that service across multiple product lines. Depreciation and indirect operating expenses were allocated to each product line based upon their respective percent utilization of those resources. The amounts reflected as Corporate and unallocated represent those expenses that were not appropriate to allocate to each product line.

Operating segment information for the three months ended March 31, 2009 and 2008 is summarized as follows:

THREE MONTHS ENDED MARCH 31, 2009 (unaudited)

	VOICE TO CARRIERS	CONSUMERS, CORPORATIONS AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	\$ 8,849,260	\$ 153,040	\$ —	\$ 9,002,300
Cost of revenues (exclusive of depreciation and amortization)	(8,379,861)	(88,030)	—	(8,467,891)
Depreciation and amortization	(264,518)	(224,953)	—	(489,471)
Selling, general and administrative	(1,278,046)	(1,192,234)	—	(2,470,280)
Advertising and marketing	(1,789)	(5,707)	—	(7,496)
Other income (expenses)	(43,041)	(50,525)	—	(93,566)
Total loss from continuing operations	(1,117,995)	(1,408,409)	—	(2,526,404)
Loss from discontinued operations	—	(479,811)	—	(479,811)
Net loss	\$ (1,117,995)	\$ (1,888,220)	\$ —	\$ (3,006,215)
Assets	\$ 4,410,006	\$ 1,803,431	\$ 945,185	\$ 7,158,622
Capital expenditures	\$ 24,000	\$ 5,895	\$ 7,953	\$ 37,848

THREE MONTHS ENDED MARCH 31, 2008 (unaudited)

	VOICE TO CARRIERS	CONSUMERS, CORPORATIONS AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	\$ 11,163,545	\$ 43,457	\$ —	\$ 11,207,002
Cost of revenues (exclusive of depreciation and amortization)	(10,450,508)	(30,852)	—	(10,481,360)
Depreciation and amortization	(250,843)	(196,837)	—	(447,680)
Selling, general and administrative	(1,575,214)	(1,378,250)	—	(2,953,464)
Advertising and marketing	(3,153)	(8,299)	—	(11,452)
Other income (expenses)	284,324	333,771	—	618,095
Total loss from continuing operations	(831,849)	(1,237,010)	—	(2,068,859)
Loss from discontinued operations	—	(294,130)	—	(294,130)
Net loss	\$ (831,850)	\$ (1,531,139)	\$ —	\$ (2,362,989)
Assets	\$ 7,330,182	\$ 8,392,731	\$ 721,664	\$ 16,444,577
Capital expenditures	\$ 22,266	\$ 127,525	\$ 20,648	\$ 170,439

12. Subsequent Events.

In April 2009, the Company borrowed an aggregate of \$250,000 from an entity that is also a related party shareholder of the Company, as evidenced by five (5) promissory note agreements. Each of the promissory notes evidencing these loans, which mature in June 2010, bears interest on the unpaid principal amount of the notes from the date each note was issued until the outstanding principal amount of each note is paid in full, at the rate of 12% per annum. In the event that any note is not repaid by its maturity date, the note then automatically converts to a demand note, and the principal sum and all accrued interest will be payable in full upon ten (10) days notice from the lender. These notes also grant the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. The proceeds of these loans were used primarily for general corporate purposes.

On April 15, 2009, the Company and a lender, agreed to amend a promissory note (the "Amended Note") originally issued May 27, 2008 (previously amended and restated on January 31, 2009, December 15, 2008, November 5, 2008, October 15, 2008, September 15, 2008, and July 15, 2008) evidencing \$200,000 borrowed from the lender, which Amended Note extends the maturity date of the note to June 30, 2009. The Amended Note bears interest on the unpaid principal amount of the note from date the note was issued until the outstanding principal amount of the note is paid in full, at the rate of 12% per annum. In the event that a note is not repaid by the maturity date, that note will automatically convert to a demand note, and the principal sum and all accrued interest will be payable in full upon ten (10) days notice from the lender. The Amended Note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. The proceeds of this loan were used primarily for general corporate purposes.

From April 8, 2009 through May 4, 2009, the Company entered into subscription agreements with eight (8) accredited investors, including two (2) directors, Marvin S. Rosen and Philip D. Turits for the sale of an aggregate 7,069,703 shares of Common Stock and five-year warrants to purchase 2,123,038 shares of Common Stock, in consideration for an aggregate of \$842,000. The warrants have exercisable prices that range from \$0.11 and \$0.12, which is equal to the respective closing price of the Company's Common Stock on the business day before each closing. The proceeds from these closings were used primarily for general corporate purposes.

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

Forward—Looking Statements

The discussion in this quarterly report regarding our business and operations includes “forward-looking statements” within the meaning of 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 our business. The number one risk of the Company is its ability to attract fresh and continued capital to execute its comprehensive business strategy. There may be additional risks associated with the integration of businesses following an acquisition, concentration of revenue from one source, competitors with broader product lines and greater resources, emergence into new markets, the termination of any of the Company's significant contracts or partnerships, the Company's inability to maintain working capital requirements to fund future operations or the Company's inability to attract and retain highly qualified management, technical and sales personnel, and the other factors identified by us from time to time in our filings with the SEC. However, the risks included should not be assumed to be the only things that could affect future performance. We may also be subject to disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

All forward-looking statements included in this document are made as of the date hereof, based on information available to us as of the date thereof, and we assume no obligation to update any forward-looking statements.

The following table summarizes our results of operations for the periods indicated:

THREE MONTHS ENDED MARCH 31, (UNAUDITED)

	<u>2009</u>	<u>2008</u>
Revenues	\$ 9,002,300	\$ 11,207,002
Operating expenses:		
Cost of revenues, exclusive of depreciation and amortization, shown separately below	8,467,891	10,481,360
Depreciation and amortization	489,471	447,680
Selling, general, and administrative expenses (includes approximately \$35,000 and \$114,000, non-cash compensation for 2009 and 2008, respectively)	2,470,280	2,953,464
Advertising and marketing	7,496	11,452
Total operating expenses	<u>11,435,138</u>	<u>13,893,956</u>
Operating loss	<u>(2,432,838)</u>	<u>(2,686,954)</u>
Other income (expenses):		
Interest income	159	1,731
Interest expense	(95,940)	(17,390)
Gain on settlement of debt	—	634,991
Other	2,215	(1,237)
Total other income (expenses)	<u>(93,566)</u>	<u>618,095</u>
Income (loss) from continued operations	(2,526,404)	(2,068,859)
Discontinued operations:		
Income (loss) from discontinued operations	<u>(479,811)</u>	<u>(294,130)</u>
Net loss	<u>\$ (3,006,215)</u>	<u>\$ (2,362,989)</u>

The following table presents our historical operating results as a percentage of revenues for the periods indicated:

THREE MONTHS ENDED MARCH 31, (UNAUDITED)

	<u>2009</u>	<u>2008</u>
Revenues	100.0%	100.0%
Operating expenses:		
Cost of revenues, exclusive of depreciation and amortization, shown separately below	94.1%	93.5%
Depreciation and amortization	5.4%	4.0%
Selling, general, and administrative expenses (includes approximately \$35,000 and \$114,000 non—cash compensation for 2009 and 2008, respectively)	27.4%	26.4%
Advertising and marketing	0.1%	0.1%
Total operating expenses	127.0%	124.0%
Operating loss	(27.0)%	(24.0)%
Other income (expenses):		
Interest income	0.0%	0.0%
Interest expense	(1.1)%	(0.2)%
Gain on settlement of debt	0.0%	5.7%
Other	0.0%	0.0%
Total other income (expenses)	<u>(1.1)%</u>	<u>5.5%</u>
Income (loss) from continuing operations	(28.1)%	(18.5)%
Discontinued operations:		
Income (loss) from discontinued operations	(5.3)%	(2.6)%
Net loss	<u>(33.4)%</u>	<u>(21.1)%</u>

Revenues

Historically, we have generated the majority of our revenues from voice traffic sold to other carriers, with a primary focus in the last several years on VoIP terminations to the emerging markets. We focus on growing our existing customer base, which is primarily US based, as well as the addition of new customers, and the establishment of direct VoIP terminating arrangements with telecommunication carriers in emerging markets and around the world. Although we believe that this business continues to be of value to our strategy, ongoing competitive and pricing pressures have caused us to increase our focus on higher margin VoIP services to corporations, and to market those services directly or via distribution partners.

The Company initiated its exit from the Consumer segment in the first quarter of 2009 that had previously been announced, and the Consumer revenues that have historically been reported with that segment have now been reclassified to discontinued operations.

We manage our revenue segments based on gross margin, which is net revenues less cost of revenues, rather than on net profitability, due to the fact that our infrastructure is built to support all products, rather than individual products. This applies both to the capital investments made (such as switching and transmission equipment), and to selling, general and administrative resources. The majority of our operations personnel support all product lines, and are not separately hired to support individual product segments. For segment reporting purposes, all expenses below cost of revenues are allocated based on percentage of utilization of resources unless the items can be specifically identified to one of the product segments.

Operating Expenses

Our operating expenses are categorized as cost of revenues, depreciation and amortization, and selling, general and administrative expenses.

Costs of revenues include costs incurred with the operation of our leased network facilities, and the purchase of voice termination and Internet protocol services from other telecommunications carriers and Internet service providers. We continue to work to lower the variable component of the cost of revenue through the use of least cost routing, and continual negotiation of usage-based and fixed costs with domestic and international service providers.

Depreciation and amortization includes depreciation of our communications network equipment, amortization of leasehold improvements of our switch locations and administrative facilities, and the depreciation of our office equipment and fixtures.

Selling, general, and administrative expenses primarily include salaries and benefits, insurance, occupancy costs, marketing and advertising, professional fees, and other administrative expenses.

Advertising and marketing expense includes cost for promotional materials for the marketing of our retail products and services, as well as for public relations.

The information in our period-to-period comparisons below represents only our results from continuing operations.

THREE MONTHS ENDED MARCH 31, 2009 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2008.

Revenues

Consolidated revenues were \$9.0 million during the three months ended March 31, 2009, compared to \$11.2 million during the three months ended March 31, 2008, a decrease of \$2.2 million or 19.7%. Revenues for Carriers was \$8.8 million during the three months ended March 31, 2009, compared to \$11.2 million during the three months ended March 31, 2008, a decrease of \$2.3 million or 20.7%, this decrease was primarily caused by a decrease in the blended rate per minute and a decrease in the number of minutes.

Revenues for Voice to Corporations and Other increased \$0.1 million or 256.0%, to \$153K during the three months ended March 31, 2009 from \$43K during the three months ended March 31, 2008. This increase of \$0.1 million or 218.9% is primarily caused by an increase in our retail business due to a larger customer base.

Cost of Revenues

Consolidated cost of revenues was \$8.5 million during the three months ended March 31, 2009, compared to \$10.5 million during the three months ended March 31, 2008, a decrease of \$2.0 million or 19.2%. Cost of Revenues for Carriers was \$8.4 million during the three months ended March 31, 2009, compared to \$10.5 million during the three months ended March 31, 2008. A decrease of \$2.1 million or 19.8%; this was the result of a decrease in the number of minutes consistent with the decrease in revenues.

Cost of revenues for VoIP to Corporations and Other during the three months ended March 31, 2009 were \$100K, compared with \$31K during the three months ended March 31, 2008, an increase of \$57K or 185.3%. This increase is primarily due to an increase in our retail business, as we had to support a larger customer base during the first quarter of 2009 compared to the same period of 2008.

Operating Expenses

Depreciation and Amortization: Depreciation and amortization increased \$42K or 9.3% to \$0.49 million during the three months ended March 31, 2009, from \$0.45 million during the three months ended March 31, 2008. The depreciation expense increased as more assets were placed into service during the first quarter of 2009 compared to the same period of 2008.

Selling, General and Administrative: Selling, general, and administrative expenses decreased \$0.5 million or 16.4% during the three months ended March 31, 2009. This decrease is primarily attributable to decreases in the areas of communication, occupancy, consulting and travel and entertainment as the company focused in cost containment.

Operating Loss: Operating Loss: Our operating loss decreased \$0.3 million or 9.5% to a loss of \$2.4 million during the three months ended March 31, 2009, from a loss of \$2.7 million during the three months ended March 31, 2008. The decrease in operating loss was primarily attributable to lower selling, general, and administrative expenses as a result of the company focus on cost curtailment.

Other Income (Expense): Total other income (expense) decreased \$0.7 million from a gain of \$0.6 million in the first quarter of 2008 to a loss of \$0.1 million during the same period of 2009. During the quarter ended March 31, 2008, the company recorded \$0.6 million associated with the extinguishment of debt with a foreign vendor. This vendor went into liquidation in 2005 and as of March 31, 2008 the balance had been outstanding for over 5 years and the Statue of Limitations of the foreign country's jurisdiction for any claims by the vendor had expired, resulting in a \$0.6 million gain. In addition, during the quarter ended March 31, 2009, higher amounts of financing interest expense were charged from a non-related party.

Loss from Discontinuing Operations: Loss from discontinuing operations increased \$0.2 million or 63.1% to \$0.5 million during the three months ended March 31, 2009, from \$0.3 million during the three months ended March 31, 2008. The main factors contributing to this decrease were the write-off of assets associated with the discontinued operations of the Consumer segment and the results associated with our Dubai subsidiary.

Net Loss: Net loss increased \$0.6 million, or 27.2% to \$3.0 million during the three months ended March 31, 2009, from \$2.4 million during the three months ended March 31, 2008. The main factors contributing to this decrease were decreased gross margin, increased interest expenses and the loss in discontinued operations experienced during the first quarter of 2009. Also, during the first quarter of 2008 the company had recorded a gain associated with the settlement of a debt.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating and net losses. In addition, we are not generating positive cash flow from operations. As of March 31, 2009, we had Stockholders' deficit of approximately \$(7.1) million as compared to \$(4.8) million at December 31, 2008, and a working capital deficit of approximately \$10.9 million as compared to \$8.6 million at December 31, 2008. During the three months ended March 31, 2009, we raised approximately \$0.7 million from the sale of its securities through private placement financing (See Note 8 to the Condensed Consolidated Interim Financial Statements contained in this quarterly report on Form 10-Q). The proceeds have been and will continue to be used for working capital and general corporate purposes, international deployment, and to fund the development of our retail service offerings. We may seek further financing through the sale of debt or equity securities, although we have no commitments from any prospective purchaser of our securities..

Below is a summary of our cash flow for the periods indicated. These cash flow results are consistent with prior years, in that we continued to use significant cash in connection with our operating and investing activities and had significant cash provided by financing activities.

A summary of our cash flows for the periods indicated is as follows:

	THREE MONTHS ENDED MARCH	
	31,	
	(unaudited)	
	2009	2008
Cash from continuing operations:		
Cash used in operating activities	\$ (1,524,189)	\$ (734,343)
Cash provided by (used in) investing activities	(12,010)	(171,958)
Cash provided by financing activities	<u>1,320,996</u>	<u>1,504,066</u>
Increase(decrease) in cash and cash equivalents from continuing operations	(215,203)	597,765
Cash from discontinued operations:		
Cash provided by operating activities of discontinuing operations	29,434	25,065
Cash provided by operating activities from discontinued operations	—	7,470
Net increase in cash and cash equivalents from discontinuing operations	29,434	32,535
Net increase (decrease) in cash and equivalents from continuing and discontinuing operations	(185,769)	630,300
Cash and cash equivalents, beginning of period	427,433	70,883
Cash and cash equivalents, end of period	<u>\$ 241,664</u>	<u>\$ 701,183</u>

Sources of Liquidity

As of March 31, 2009, we had cash and cash equivalents of approximately \$0.2 million. In addition, as of March 31, 2009 we had approximately \$0.4 million of cash restricted from withdrawal and held by banks as certificates of deposits securing letters of credit (equal to the amount of the certificates of deposit).

From our inception through March 31, 2009, we financed our operations from cash provided from financing activities. These activities provided through net proceeds of approximately \$23.3 million from our initial public offering (IPO), and the private placement of approximately \$64.2 million of equity securities, \$1.6 million from the exercise of Stock Options and Warrants, and \$26.8 million from the issuance of notes. In addition, since inception we have financed the acquisition of \$8.2 million of fixed assets through capital leases.

Our long-term liquidity is dependent on our ability to attain future profitable operations. We cannot predict if and when we will be able to attain future profitability.

Uses of Liquidity

Our short-term and long-term liquidity needs arise primarily from principal and interest payments related to our capital lease/equipment financing obligations, capital expenditures, and working capital requirements as may be needed to support the growth of our business, and any additional funds that may be required for business expansion opportunities.

Our cash capital expenditures were approximately \$38,000 thousand and \$0.2 million for the three months ended March 31, 2009 and 2008, respectively. We expect our cash capital expenditures to be approximately \$170,000 for the next nine months ending December 31, 2009. The 2009 estimated capital expenditures primarily consist of additional wholesale and corporate retail infrastructure development.

Cash used in operations was approximately \$1.5 million and \$0.7 million during the three months ended March 31, 2009 and 2008, respectively. The cash used in our operations has historically been a function of our net losses, expenses for property and equipment, and changes in working capital as a result of the timing of receipts and disbursements. As we focus in our corporate and carrier sales, we expect our net cash used in operating activities to improve during future periods.

In some situations, we may be required to guarantee payment or performance under agreements, and in these circumstances, we would need to secure letters of credit or bonds to do so.

Debt Service Requirements

At March 31, 2009, we had approximately \$4.1 million of current and long-term debt. This balance relates to notes payable and our capital leases. Of this amount, the portion of debt that is collateralized by a security interest in accounts receivable is \$3,832,992.

Capital Instruments

In January 2009, the Company entered into subscription agreements with four (4) accredited investors, including two (2) directors, Marvin S. Rosen and Philip D. Turits for the sale of an aggregate 2,106,213 shares of Common Stock and five-year warrants to purchase 842,491 shares of Common Stock, in consideration for an aggregate of \$0.4 million. The warrants are exercisable at prices that range from \$0.20 to \$0.22, which is equal to the respective closing price of the Company's Common Stock on the business day before each closing. Following these transactions, the Private Placement entered into in July of 2008 was closed.

In February 2009, the Company commenced a new private placement to raise working capital for the Company's operations. This private placement provides for the sale of up to \$6 million of the Company's Common Stock. As of March 31, 2009, the Company has sold 2,112,672 shares of Common Stock for which proceeds of approximately \$0.3 million were received, net of expenses of approximately \$4,000. In addition, the Company issued five-year warrants to purchase 845,073 shares of Common Stock at an exercise price of 120% of the closing price of the Company's Common Stock the day before closing.

Critical Accounting Policies and Estimates

We have identified the policies and significant estimation processes below as critical to our business operations and the understanding of our results of operations. The listing is not intended to be a comprehensive list. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the U.S., with no need for management judgment in their application. In other cases, management is required to exercise judgment in the application of accounting principles with respect to particular transactions. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations” where such policies affect reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the notes to Consolidated Financial Statements for the year ended December 31, 2008, included in our Annual Report on Form 10-K. Our preparation of our Condensed Consolidated Interim Financial Statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our Condensed Consolidated Interim Financial Statements, and the reported amounts of revenue and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates and such differences could be significant.

Revenue Recognition

Our revenue is primarily derived from fees charged to terminate voice services over our network, retail VoIP sales to corporations and from monthly recurring charges associated with Internet and private line services.

Variable revenue is earned based on the number of minutes during a call and is recognized upon completion of a call, adjusted for allowance for doubtful accounts receivable and billing adjustments. Revenue for each customer is calculated from information received through our network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides us the ability to do a timely and accurate analysis of revenue earned in a period. Consequently, the recorded amounts are generally accurate and the recorded amounts are unlikely to be revised in the future.

Fixed revenue is earned from monthly recurring services provided to the customer that are fixed and recurring in nature, and are contracted for over a specified period of time. The initial start of revenue recognition is after the provisioning, testing and acceptance of the service by the customer. The charges continue to bill until the expiration of the contract, or until cancellation of the service by the customer.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of an allowance for doubtful accounts. On a periodic basis, we evaluate our accounts receivable and record an allowance for doubtful accounts, based on our history of past write-offs and collections and current credit conditions. Specific customer accounts are written off as uncollectible if the probability of a future loss has been established and payments are not expected to be received.

Cost of Revenues and Cost of Revenues Accrual

Cost of revenues is comprised primarily of costs incurred from other domestic and international communications carriers to originate, transport, and terminate calls. The majority of our cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the most significant expense. Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through our network switches. Each period the activity is analyzed and an accrual is recorded for minutes not invoiced. This cost accrual is calculated using minutes from the system and the variable cost of revenue based upon predetermined contractual rates.

In addition to the variable cost of revenue, there are also fixed expenses. One category of fixed expenses is associated with the network backbone connectivity to our switch facilities. These expenses would consist of hubbing charges at our New York switch facility that allow other carriers to send traffic to our switch, satellite or cable charges to connect to our international network, or Internet connectivity charges to connect customers or vendors to the Company's switch via the public Internet, a portion of which are variable costs. The other category of fixed expenses is associated with charges that are dedicated point-to-point connections to specific customers (both private line and Internet access).

Intangible Assets and Goodwill Impairment Testing

Absent any circumstances that warrant testing at another time, we test for goodwill and non-amortizing intangible asset impairment as part of our year-end closing process. Impairment losses are recorded when indicators of impairment are present based primarily upon estimated future cash flows.

Income Taxes

We account for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires companies to recognize deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in our Condensed Consolidated Interim Financial Statements. Deferred tax liabilities and assets are determined based on the temporary differences between the Condensed Consolidated Interim Financial Statements carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in the years in which the temporary differences are expected to reverse. In assessing the likelihood of utilization of existing deferred tax assets and recording a full valuation allowance, we have considered historical results of operations and the current operating environment.

Recently Issued Accounting Pronouncements

In April 2008, the FASB issued Staff Position (FSP) No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" The FSP amends the factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) both intangible assets acquired in business combinations and asset acquisitions. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of FAS 142-3 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," to clarify that all outstanding unvested share-based payment awards that contain no forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its calculation of basic and diluted earnings per share (EPS) pursuant to the two-class method, as described in FASB Statement 128, Earnings per Share. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The adoption of FSP EITF 03-6-1 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 was effective upon issuance and applies to Financial Assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS No. 157. The adoption of FSP No. 157-3 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20", the FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether any other-than-temporary impairment (OTTI) has occurred. The FSP eliminates the requirement that a holder's best estimate of cash flows be based upon those that "a market participant" would use, instead, the FSP requires that another-than-temporary impairment (OTTI) be recognized as a realized loss through earnings as a realized loss when it is "probable" there has been an adverse change in the holder's estimated cash flows from the cash flows previously projected. The FSP is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, to amend and clarify the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under FAS No. 141(R), Business Combinations. Under the new guidance, assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. The FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FAS 141(R)-1 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements..

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("the FSP"). The FSP requires disclosures about fair value of financial instruments whenever summarized financial information for interim reporting periods is presented. Entities shall disclose the methods and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in methods and significant assumptions, if any, during the period. Companies should also provide qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The FSP is Effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The company is evaluating the impact that the adoption of FASB Staff Position FAS 107-1 and APB 28-1, if any, will have on its Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments". FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security, or (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing another-than-temporary impairment. Companies must follow the guidelines established by FSP to determine if another-than-temporary impairment of a debt security has occurred. FSP FAS 115-2 and FAS 124-2 are effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The company is evaluating the impact that the adoption of FSP FAS 115-2 and FAS 124-2, if any, will have on its Condensed Consolidated Interim Financial Statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". FSP FAS 157-4 provides guidance as to how to determine fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what statement 157 states is the objective of fair value measurement-to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The company is evaluating the impact that the adoption of FSP FAS 157-4, if any, will have on its Condensed Consolidated Interim Financial Statements.

Forward-Looking Statements

The discussion in this quarterly report regarding our business and operations includes “forward-looking statements” within the meaning of 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 our business. The number one risk of the Company is its ability to attract fresh and continued capital to execute its comprehensive business strategy. There may be additional risks associated with the integration of businesses following an acquisition, concentration of revenue from one source, competitors with broader product lines and greater resources, emergence into new markets, the termination of any of the Company’s significant contracts or partnerships, the Company’s inability to maintain working capital requirements to fund future operations or the Company’s inability to attract and retain highly qualified management, technical and sales personnel, and the other factors identified by us from time to time in our filings with the SEC. However, the risks included should not be assumed to be the only things that could affect future performance. We may also be subject to disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

All forward-looking statements included in this document are made as of the date hereof, based on information available to us as of the date thereof, and we assume no obligation to update any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Disclosure under this section is not required for a smaller reporting company

Item 4T. Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, or the "Exchange Act") that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to accomplish their objectives.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or our internal controls will prevent all error and all fraud. The design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their cost. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that we have detected all of our control issues and all instances of fraud, if any. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions.

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is from time to time involved in claims and legal actions arising in the ordinary course of business. Management does not expect that the outcome of these cases will have a material effect on the Company's financial position.

Due to the regulatory nature of the industry, the Company periodically receives and responds to various correspondence and inquiries from state and federal regulatory agencies. Management does not expect the outcome on these inquiries to have a material impact on our operations or financial condition.

Item 1A. Risk Factors.

Risk Associated with Possible Delisting of our Securities from the NYSE Amex LLC

October 10, 2008, the Company received a notice from the Corporate Compliance Department of NYSE Amex LLC (the "Exchange") indicating that the Company is no longer in compliance with certain of the Exchange's continued listing standards, as set forth in Part 10 of the NYSE Amex LLC Company Guide ("Exchange Guide"), and, as a result, the Exchange intends to strike the securities from the Exchange by filing a delisting application with the SEC. The Company appealed the decision of the Exchange and an appeals hearing took place before a Listing Qualifications Panel of the Exchange on March 25, 2009. On March 30, 2009, the Appeals Panel notified the Company that it had been granted a sixty (60) day extension of time, during which it would be expected to demonstrate further progress toward compliance. The Appeals Panel will again review its decision following the conclusion of the extension period.

The Company's Common Stock and warrants will continue to be listed on the Exchange pending a final decision of the Listing Qualifications Panel that heard the Company's appeal. If the Company's securities are delisted from the Exchange, the Company believes its Common Stock and Redeemable Warrants will be eligible to continue trading on the Over-the-Counter Bulletin Board, (the "OTCBB") However, notwithstanding listing on the OTCBB, delisting of our Securities from the Exchange may have certain adverse consequences, including but not limited to:

- potential decrease in the Company's liquidity,
- potential decrease in amount and availability of external sources of capital,
- the possibility that our common stock will be considered a "penny stock" under Rule 3a55-1 of the Securities Exchange Act of 1934, which imposes stringent requirements on brokers and dealers when effecting transactions in "penny stocks," and
- potential increase in cost of debt.

The Company's Common Stock is currently listed on the NYSE Amex (formerly AMEX), NYSE Amex under the symbol "FSN." In addition, our publicly traded Redeemable Warrants are also listed on the NYSE Amex under the symbol "FSN.WS"

Risks Related to Business

We have a history of operating losses and, prior to our IPO, a working capital deficit and Stockholders' deficit. There can be no assurance that we will ever achieve profitability or have sufficient funds to execute our business strategy.

There can be no assurance that any of our business strategies will be successful or that we will ever achieve profitability. At March 31, 2009, we had a working capital deficit of approximately (\$10.1) million and Stockholders' equity of approximately \$(7.8) million. We have continued to sustain losses from operations and for the years ended December 31, 2008, 2007, and 2006, we have incurred a net loss applicable to Common Stockholders of approximately \$16.2 million, \$13.2 million and \$13.6 million, respectively. In addition, we have not generated positive cash flow from operations for the years ended December 31, 2008, 2007, and 2006. We may not be able to generate future profits and may not be able to support our operations, or otherwise establish a return on invested capital. In addition, we may not have sufficient funds to execute our business strategy, requiring us to raise funds from capital markets, consequently, diluting our common stock.

If we are unable to manage our growth or implement our expansion strategy, we may increase our costs without maximizing our revenues.

We may not be able to expand our product offerings, our client base and markets, or implement the other features of our business strategy at the rate or to the extent presently planned. Our projected growth will place a significant strain on our administrative, operational, and financial resources and may increase our costs. If we are unable to successfully manage our future growth, establish, and continue to upgrade our operating and financial control systems, recruit and hire necessary personnel or effectively manage unexpected expansion difficulties, we may not be able to maximize revenues or profitability.

The success of our continued growth is dependent upon market developments and traffic patterns, which will lead us to make expenditures that may not result in increased revenues.

Our purchase of network equipment and software will be based in part on our expectations concerning future revenue growth and market developments. As we expand our network, we will be required to make significant capital expenditures, including the purchase of additional network equipment and software, and to add additional employees. To a lesser extent our fixed costs will also increase from the ownership and maintenance of a greater amount of network equipment including our Softswitch, gateways, routers, and other related systems. If our traffic volume were to decrease, or fail to increase to the extent expected or necessary to make efficient use of our network, our costs as a percentage of revenues would increase significantly.

We may be unable to adapt to rapid technology trends and evolving industry standards, which could lead to our products becoming obsolete.

The communications industry is subject to rapid and significant changes due to technology innovation, evolving industry standards, and frequent new service and product introductions. New services and products based on new technologies or new industry standards expose us to risks of technical or product obsolescence. We will need to use technologies effectively, continue to develop our technical expertise and enhance our existing products and services in a timely manner to compete successfully in this industry. We may not be successful in using new technologies effectively, developing new products, or enhancing existing products and services in a timely manner or that any new technologies or enhancements used by us or offered to our customers will achieve market acceptance.

Some of our services are dependent upon multiple service platforms, network elements, and back-office systems that are reliant on third party providers.

We have deployed back-office systems and services platforms that enable us to offer our customers a wide-array of services and features. Sophisticated back office information and processing systems are vital to our growth and our ability to monitor costs, bill clients, provision client orders, and achieve operating efficiencies. Some of these systems are dependent upon license agreements with third party vendors. These third party vendors may cancel or refuse to renew some of these agreements, and the cancellation or non-renewal of these agreements may harm our ability to bill and provide services efficiently

We may be impacted by recent litigation regarding patent infringement to which we were not a party.

On March 8, 2007, a jury in the U.S. District Court for the Eastern District of Virginia ruled that Vonage Holdings had infringed on three patents held by Verizon Communications, and ordered Vonage to pay Verizon \$58 million plus possible future royalties. The details of the patent infringement are not yet clear, however, the patents related in part to technologies used to connect Internet telephone use to the traditional telephone network. Vonage appealed the decision. At this point, Vonage has lost that appeal. However, it is unclear what may be the future impact, if any, to other VoIP service providers, including us. If we were restricted from using certain VoIP technologies, it could increase our cost of service or preclude us from offering certain current or future services

Breaches in our network security systems may hurt our ability to deliver services and our reputation, and result in liability.

We could lose clients and expose ourselves to liability if there are any breaches to our network security systems, which could jeopardize the security of confidential information stored in our computer systems. In the last four years, we experienced two known breaches of network security, which resulted in a temporary failure of network operations. Any network failure could harm our ability to deliver certain services, our reputation and subject us to liability.

Our growth is dependent upon our ability to build new distribution relationships, and to bring on new customers, of which there can be no assurance.

Our ability to grow through quick and cost effective deployment of our VoIP services is in part dependent upon our ability to identify and contract with local entities that will assist in the distribution of our services. This will include local sales agents that sell our corporate services. If we are unable to identify or contract for such distribution relationships, we may not generate the customers or revenues currently envisioned.

Our entry into new overseas markets may rely upon our ability to obtain licenses to operate in those countries, and our ability to establish good working relationships with postal telephone and telegraph companies in order to interconnect to the telephone networks. There can be no assurance of our ability to accomplish either.

The rapid growth of our network may be dependent upon our ability to apply for and receive licenses to operate in the foreign markets we intend to enter. They are also dependent upon our ability to establish positive working relationships with foreign postal telephone and telegraph companies, and other licensed carriers, and to negotiate and execute the agreements necessary for us to interconnect with their local networks. While we will diligently pursue these relationships, we might not be able to obtain the necessary licenses and interconnections within the time frame envisioned or not at all.

The communications services industry is highly competitive and we may be unable to compete effectively.

The communications industry, including Internet and data services, is highly competitive, rapidly evolving, and subject to constant technological change and intense marketing by providers with similar products and services. We expect that new competitors, as well as gray market operators (operators who arrange call termination in a manner that bypasses the postal telephone and telegraph company, resulting in high margins for the gray market operator and substantially lower revenues for the postal telephone and telegraph company), are likely to join existing competitors in the communications industry, including the market for VoIP, Internet and data services. Many of our current competitors are significantly larger and have substantially greater market presence as well as greater financial, technical, operational, marketing, and other resources and experience than we do. In the event that such a competitor expends significant sales and marketing resources in one or several markets, we may not be able to compete successfully in such markets. We believe that competition will continue to increase, placing downward pressure on prices. Such pressure could adversely affect our gross margins if we are not able to reduce our costs commensurate with such price reductions. In addition, the pace of technological change makes it impossible for us to predict whether we will face new competitors using different technologies to provide the same or similar services offered or proposed to be offered by us. If our competitors were to provide better and more cost effective services than ours, we may not be able to increase our revenues or capture any significant market share.

Industry consolidation could make it more difficult for us to compete.

Companies offering Internet, data and communications services are, in some circumstances, consolidating. We may not be able to compete successfully with businesses that have combined, or will combine, to produce companies with substantially greater financial, sales and marketing resources, larger client bases, extended networks and infrastructures and more established relationships with vendors, distributors and partners than we have. With these heightened competitive pressures, there is a risk that our revenues may not grow as expected and the value of our common stock could decline.

Our ability to provide services is often dependent on our suppliers and other service providers who may not prove to be effective.

A majority of the voice calls made by our clients are connected through other communication carriers, which provide us with transmission capacity through a variety of arrangements. Our ability to terminate voice traffic in our targeted markets is an essential component of our ongoing operations. If we do not secure or maintain operating and termination arrangements, our ability to increase services to our existing markets, and gain entry into new markets, will be limited. Therefore, our ability to maintain and expand our business is dependent, in part, upon our ability to maintain satisfactory relationships with incumbent and other licensed carriers, Internet service providers, international exchange carriers, satellite providers, fiber optic cable providers and other service providers, many of which are our competitors, and upon our ability to obtain their services on a cost effective basis, as well as the ability of such carriers to carry the traffic we route to their networks or provide network capacity. If a carrier does not carry traffic routed to it, or provide required capacity, we may be forced to route our traffic to, or buy capacity from, a different carrier on less advantageous terms, which could reduce our profit margins or degrade our network service quality. In the event network service is degraded, it may result in a loss of customers. To the extent that any of these carriers raise their rates, change their pricing structure, or reduce the amount of capacity they will make available to us, our revenues and profitability may be adversely affected.

We rely on third party equipment suppliers who may not be able to provide us the equipment necessary to deliver the services that we seek to provide.

We are dependent on third party equipment suppliers for equipment, software, and hardware components, including Cisco, Genband f/k/a Nextone, BroadSoft, and Veraz. If these suppliers fail to continue product development and research and development or fail to deliver quality products or support services on a timely basis, or we are unable to develop alternative sources, if and as required, it could result in our inability to deliver the services that we currently and intend to provide.

We rely on the cooperation of postal telephone and telegraph companies who may hinder our operations in certain markets.

In some cases, we will require the cooperation of the postal telephone and telegraph company or another carrier in order to provide services under a license or partnership agreement. In the event the postal telephone and telegraph company or another carrier does not cooperate, our service rollout may be delayed, or the services we offer could be negatively affected. If we acquire a license for a market and the postal telephone and telegraph company or incumbent carrier desires to negatively affect our business in the area, they may be in a position to significantly delay our ability to provide services in that market and ultimately make it not worth pursuing.

If we are unable to develop and maintain successful relationships with our joint venture partners, we could fail in an important market.

We have been in the past and may be in the future engaged in certain joint ventures where we share control or management with a joint venture partner. If we are unable to maintain a successful relationship with a joint venture partner, the joint venture's ability to move quickly and respond to changes in market conditions or respond to financial issues can erode and reduce the potential for value creation and return on investment. Further, the joint ventures may restrict or delay our ability to make important financial decisions, such as repatriating cash to us from such joint ventures. This uncertainty with our joint ventures could result in a failure in an important market.

Service interruptions due to disputes could result in a loss of revenues and harm our reputation.

Portions of our terminating network may be shut down from time to time as a result of disputes with vendors or other issues. Any future network shut downs can have a significant negative impact on revenue and cash flows, as well as hurting our reputation. In addition, there is no assurance that we will be able to quickly resolve disputes, if ever, which could result in a permanent loss of revenues.

Because we do business on an international level we are subject to an increased risk of tariffs, sanctions and other uncertainties that may hurt our revenues.

There are certain risks inherent in doing business internationally, especially in emerging markets, such as unexpected changes in regulatory requirements, the imposition of tariffs or sanctions, licenses, customs, duties, other trade barriers, political risks, currency devaluations, high inflation, corporate law requirements, and even civil unrest. Many of the economies of these emerging markets are weak and volatile. We may not be able to mitigate the effect of inflation on our operations in these countries by price increases, even over the long-term. Further, expropriation of private businesses in such jurisdictions remains a possibility, whether by outright seizure by a foreign government or by confiscatory tax or other policies. Deregulation of the communications markets in developing countries may not continue. Incumbent providers, trade unions and others may resist legislation directed toward deregulation and may resist allowing us to interconnect to their network switches. The legal systems in emerging markets frequently have insufficient experience with commercial transactions between private parties. Consequently, we may not be able to protect or enforce our rights in any emerging market countries. Governments and regulations may change resulting in availability of licenses and/or cancellations or suspensions of operating licenses, confiscation of equipment and/or rate increases. The instability of the laws and regulations applicable to our businesses and their interpretation and enforcement in these markets could materially and adversely affect our business, financial condition, or results of operations.

Regulatory treatment of VoIP outside the U.S. varies from country to country. Some countries are considering subjecting VoIP services to the regulations applied to traditional telephone companies and they may assert that we are required to register as a telecommunications carrier in that country or impose other regulations. In such cases, our failure to register could subject us to fines, penalties, or forfeiture. Regulatory developments such as these could have a material adverse effect on our international operations.

Additional taxation and government regulations of the communications industry may slow our growth, resulting in decreased demand for our products and services and increased costs of doing business.

We could have to pay additional taxes because our operations are subject to various taxes. We structure our operations based on assumptions about various tax laws, U.S. and international tax treaty developments, international currency exchange, capital repatriation laws, and other relevant laws by a variety of non-U.S. jurisdictions. Taxation or other authorities might not reach the same conclusions we reach. We could suffer adverse tax and other financial consequences if our assumptions about these matters are incorrect or the relevant laws are changed or modified.

Generally, in the U.S., our services are subject to varying degrees of federal, state, and local regulation, including regulation by the Federal Communications Commission (FCC) and various state public utility commissions. We may also be subject to similar regulation by foreign governments and their telecommunications/regulatory agencies. While these regulatory agencies grant us the authority to operate our business, they typically exercise minimal control over our services and pricing. However, they do require the filing of various reports, compliance with public safety and consumer protection standards, and the payment of certain regulatory fees and assessments.

We cannot assure that the applicable U.S. and foreign regulatory agencies will grant us the required authority to operate, will allow us to maintain existing authority so we can continue to operate, or will refrain from taking action against us if we are found to have provided services without obtaining the necessary authority. Similarly, if our pricing, and/or terms or conditions of service, are not properly filed or updated with the applicable agencies, or if we are otherwise not fully compliant with the rules of the various regulatory agencies, regulators or other third parties could challenge our actions and we could be subject to forfeiture of our authority to provide service, or to penalties, fines, fees, or other costs. We have been delinquent in certain filing and reporting obligations in the past, including, but not limited to, filings with the FCC and Universal Service Fund (USF) reports and payments. We are currently working with various federal and state regulatory agencies to complete any outstanding filings.

In addition to new regulations being adopted, existing laws may be applied to the Internet, which could hamper our growth.

New and existing laws may cover issues that include: sales and other taxes; user privacy; pricing controls; characteristics and quality of products and services; consumer protection; cross-border commerce; copyright, trademark and patent infringement; and other claims based on the nature and content of Internet materials. This could delay growth in demand for our products and services and limit the growth of our revenue.

A large percentage of our current revenues are related to a small group of customers and loss of any of those customers could negatively impact our revenues.

A large percentage of our carrier services revenue is provided by a small group of customers. The terms of the customer's agreement do not bind the customer contractually to continue using our services and if our business with this customer were to significantly decrease or stop, it could have a negative impact on our revenues and cash flow.

Risks Related to Our Common Stock

Voting Control by Principal Stockholders

As of March 31, 2009, our Executive Officers and Directors collectively controlled approximately 28% of our outstanding common stock and, therefore are able to significantly influence the vote on matters requiring stockholder approval, including the election of directors.

We Do Not Intend to Pay Dividends on Common Stock.

We have never declared or paid any cash dividends on our Common Stock. We intend to retain any future earnings to finance our operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future. Holders of our outstanding Preferred Stock are entitled to receive dividends prior to the payment of any dividends on our Common Stock. The payment of dividends is also subject to provisions of Delaware law prohibiting the payment of dividends except out of surplus and certain other limitations.

Going Concern

At March 31, 2009, the Company had a working capital deficit of approximately \$10,808,000 and an accumulated deficit of approximately \$132,613,000. The Company has continued to sustain losses from operations. In addition, the Company has not generated positive cash flow from operations since inception. Management is aware that its current cash resources are not adequate to fund its operations for the remainder of the year. During the three months ended March 31, 2009, the Company raised \$669,000 net of expenses from sale of its securities through private placement. The Company cannot make any guarantees if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company's ability to continue operations as a going concern. No adjustment has been made in the Condensed Consolidated Interim Financial Statements to the amounts and classification of assets and liabilities, which could result, should the Company be unable to continue as a going concern.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Unregistered Sales of Securities
None

(b) Use of Proceeds
None.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submissions of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

On April 10, 2009, April 13, 2009 and April 27, 2009 the Company borrowed an aggregate of \$150,000 from an entity that is also a related party shareholder of the Company. The loans are evidenced by three (3) promissory notes, each of which matures in June 2010 and bears interest on the unpaid principal amount of the notes from the date the note is issued until the outstanding principal amount of the notes are paid in full, at the rate of 12% per annum. In the event that a note is not repaid by the maturity date, that notes will automatically convert to demand note, and the principal sum and all accrued interest will be payable in full upon ten (10) days notice from the lender. The notes also grant the lender a collateralized security interest, pari passu with other lenders, in the Company's account(s) receivable. The proceeds are being used for general working capital purposes.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a)/15d-14(a).
31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a)/15d-14(a).
32.1	Section 1350 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Form of Promissory Note (incorporated by reference to <u>Exhibit 99.1</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on January 31, 2008).
99.2	Form of Promissory Note and Security Agreement (incorporated by reference to <u>Exhibit 10.2</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.3	Form of Promissory Note and Security Agreement (incorporated by reference to <u>Exhibit 10.5</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.4	Form of Subscription and Rights Agreement (incorporated by reference to <u>Exhibit 10.1</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on November 23, 2007)
99.5	Form of Common Stock Purchase Warrant (incorporated by reference to <u>Exhibit 10.2</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on November 23, 2007)
99.6	Form of Subscription and Rights Agreement (incorporated by reference to <u>Exhibit 10.3</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.7	Form of Common Stock Purchase Warrant (incorporated by reference to <u>Exhibit 10.4</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.8	Form of Amended and Restated Promissory Note and Security Agreement (incorporated by reference to <u>Exhibit 10.1</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.9	Form of Subscription and Rights Agreement (incorporated by reference to <u>Exhibit 10.3</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)
99.10	Form of Common Stock Purchase Warrant (incorporated by reference to <u>Exhibit 10.4</u> to the Registrant's <u>Form 8-K</u> filed with the Securities Exchange Commission on October 6, 2008)

SIGNATURES

Pursuant to the requirements 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.

**FUSION TELECOMMUNICATIONS INTERNATIONAL,
INC.**

Date: May 15, 2009

By: /s/ MATTHEW D. ROSEN
Matthew D. Rosen
Chief Executive Officer

Date: May 15, 2009

BY: /s/ BARBARA HUGHES
Barbara Hughes
Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
<u>10.1</u>	Form of Subscription and Rights Agreement
<u>10.2</u>	Form of Common Stock Purchase Warrant
<u>31.1</u>	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



No: _____
Name: _____
Number of Shares Subscribed for: _____

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
SUBSCRIPTION AND RIGHTS AGREEMENT**

[INSERT INFORMATION HERE]

OFFERING INFORMATION, LEGENDS, AND NOTICES

THE SECURITIES OFFERED HEREBY, HAVE NOT BEEN FILED OR REGISTERED WITH OR APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFERING MATERIALS. NO STATE SECURITIES LAW ADMINISTRATOR HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR THE ADEQUACY OF THE OFFERING MATERIALS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

IT IS INTENDED THAT THE SECURITIES OFFERED HEREBY WILL BE MADE AVAILABLE TO ACCREDITED INVESTORS, AS DEFINED IN REGULATION D AND RULE 501 PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE SECURITIES OFFERED HEREBY ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND APPLICABLE STATE SECURITIES LAWS FOR NONPUBLIC OFFERINGS. SUCH EXEMPTIONS LIMIT THE NUMBER AND TYPES OF INVESTORS TO WHICH THE OFFERING WILL BE MADE AND RESTRICT SUBSEQUENT TRANSFERS OF THE INTERESTS.

THE SECURITIES OFFERED HEREBY SHOULD BE CONSIDERED ONLY BY PERSONS WHO CAN AFFORD TO SUSTAIN A LOSS OF THEIR ENTIRE INVESTMENT. INVESTORS WILL BE REQUIRED TO REPRESENT THAT THEY ARE FAMILIAR WITH AND UNDERSTAND THE TERMS OF THIS OFFERING.

NO SECURITIES MAY BE RESOLD OR OTHERWISE DISPOSED OF BY AN INVESTOR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, REGISTRATION UNDER THE APPLICABLE FEDERAL OR STATE SECURITIES LAWS IS NOT REQUIRED OR COMPLIANCE IS MADE WITH SUCH REGISTRATION REQUIREMENTS.

THE OFFEREE, BY ACCEPTING DELIVERY OF THE OFFERING MATERIALS, AGREES TO RETURN THE OFFERING MATERIALS AND ALL ACCOMPANYING OR RELATED DOCUMENTS TO THE COMPANY UPON REQUEST IF THE OFFEREE DOES NOT AGREE TO PURCHASE ANY OF THE SECURITIES OFFERED HEREBY.

ANY OFFERING MATERIALS SUBMITTED IN CONNECTION WITH THE PRIVATE PLACEMENT OF THE SECURITIES DO NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED. ANY REPRODUCTION OR DISTRIBUTION OF ANY OFFERING MATERIALS IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF THEIR CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMPANY, IS PROHIBITED. ANY PERSON ACTING CONTRARY TO THE FOREGOING RESTRICTIONS MAY PLACE HIM/HERSELF AND THE COMPANY IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS.

NASAA UNIFORM LEGEND

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR RESIDENTS OF PENNSYLVANIA

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE PENNSYLVANIA SECURITIES ACT AND MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF WITHIN 12 MONTHS AFTER THE DATE OF PURCHASE, UNLESS SUBSEQUENTLY REGISTERED UNDER THE PENNSYLVANIA SECURITIES ACT OR UNDER

THE SECURITIES ACT OF 1933, AS AMENDED.

EACH PERSON WHO ACCEPTS AN OFFER TO PURCHASE SECURITIES EXEMPTED FROM REGISTRATION BY SECTION 203(d), DIRECTLY FROM THE ISSUER OR AFFILIATE OF THE ISSUER, SHALL HAVE THE RIGHT TO WITHDRAW HIS ACCEPTANCE WITHOUT INCURRING ANY LIABILITY TO THE SELLER, UNDERWRITER (IF ANY) OR ANY OTHER PERSON WITHIN 2 BUSINESS DAYS FROM THE DATE OF RECEIPT BY THE ISSUER OF HIS WRITTEN BINDING CONTRACT OF PURCHASE OR, IN THE CASE OF A TRANSACTION IN WHICH THERE IS NO BINDING CONTRACT OF PURCHASE, WITHIN 2 BUSINESS DAYS AFTER HE MAKES THE INITIAL PAYMENT FOR THE SECURITIES BEING OFFERED.

FOR RESIDENTS OF GEORGIA

THESE SECURITIES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH THIRTEEN (13) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

FOR RESIDENTS OF FLORIDA

PURSUANT TO THE LAWS OF THE STATE OF FLORIDA, IF SALES ARE MADE TO FIVE (5) OR MORE INVESTORS IN FLORIDA, ANY FLORIDA INVESTOR MAY, AT ITS OPTION, WITHDRAW, UPON WRITTEN (OR TELEGRAPHIC) NOTICE, ANY PURCHASE HEREUNDER WITHIN A PERIOD OF THREE (3) DAYS AFTER (A) THE INVESTOR FIRST TENDERS OR PAYS TO THE COMPANY AN AGENT OF THE COMPANY OR AN ESCROW AGENT THE CONSIDERATION REQUIRED HEREUNDER, (B) THE INVESTOR DELIVERS ITS EXECUTED SUBSCRIPTION AGREEMENT, OR (C) THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH INVESTOR, WHICHEVER OCCURS LATER.

Subscription and Rights Agreement

**SUBSCRIPTION AND RIGHTS AGREEMENT
FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.**

SUBSCRIPTION AND RIGHTS AGREEMENT (this “**Subscription Agreement**”) by and between **FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.**, a Delaware Corporation (the “**Company**”) and the **SUBSCRIBER** whose name appears on the signature page to this Subscription Agreement (“**Subscriber**”).

This Subscription Agreement is executed and delivered in connection with the offering of up to \$[INSERT INFORMATION HERE] (the “**Offering**”) in shares (the “**Shares**”) of the Company’s Common Stock, \$.01 par value per share (the “**Common Stock**”) and accompanying Common Stock Purchase Warrants (the “**Warrants**”) to purchase one share of Common Stock (“**Warrant Shares**”) for each [INSERT INFORMATION HERE] Shares purchased in the Offering. The Company, in its sole discretion and without notice, may increase the size of the Offering by an additional \$[INSERT INFORMATION HERE]. The Common Stock and the Warrants are sometimes collectively referred to as the “**Securities**”). The Offering and the Securities are more fully described in the Company’s Confidential Private Placement Memorandum dated [INSERT INFORMATION HERE] (the “**Memorandum**”). The Form of Common Stock Purchase Warrant is attached as Exhibit “[INSERT INFORMATION HERE]” to the Memorandum.

A. General.

(1) Subscriber hereby subscribes for and agrees to purchase from the Company, and the Company agrees to sell to Subscriber, the dollar amount of Shares set forth on the signature page hereof.

(2) Subscriber herewith tenders to the Company the entire amount of the purchase price by check made payable to the order of “[INSERT INFORMATION HERE]” or by wire transfer of immediately available funds to the Escrow Account below:

Bank Name: [INSERT INFORMATION HERE]

ABA Number: [INSERT INFORMATION HERE]

Account Name: [INSERT INFORMATION HERE]

Account Number: [INSERT INFORMATION HERE]

(3) Subscriber herewith delivers a completed and signed Subscription Agreement and completed and signed Qualified Purchaser Questionnaire for Shares of Fusion Telecommunications International, Inc. (“Qualified Purchaser Questionnaire”) to the Company at:

[INSERT INFORMATION HERE]

Attn: [INSERT INFORMATION HERE]

(4) Subscriber acknowledges and understands that closings of the Offering will be held no less frequently than twice per week and, possibly, more frequently, as described in the Memorandum. However, until such time as Subscriber’s subscription is accepted and a closing of the purchase and sale of the Securities being subscribed to by Subscriber takes place, Subscriber will not have access to its subscription funds and will not be a stockholder of the Company.

(5) In the event the Company elects, in its sole discretion, to accept Subscriber’s payment of the purchase price for the Securities by check and include Subscriber in a closing of the Offering prior to the time that Subscriber’s subscription payment becomes available to the Company in cleared US dollars (“Cleared Funds”), the Company will treat Subscriber’s check as an obligation to pay us the amount of the check, with such obligation being satisfied when Cleared Funds are available to us. The Company will not be required to deliver certificates evidencing Securities to Subscriber until we receive payment for the Securities in Cleared Funds; and we will retain a purchase money security interest in the Securities until we receive Cleared Funds or determine in our sole discretion to rescind the subscription due to lack of Cleared Funds. Subscriber understands that the holding period for the Shares under Rule 144 will not commence until the closing occurs and the Company receives payment for the Shares in Cleared Funds.

B. Securities offered have not been registered under the Securities Act of 1933, as amended

Subscriber acknowledges that (i) the Securities have not been registered under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the “1933 Act”), or the securities laws of any state; (ii) absent an exemption, any transfer of the Securities would require registration; (iii) the Securities are being offered for sale in reliance upon exemptions from registration contained in the 1933 Act and applicable state laws; and (iv) the Company’s reliance upon such exemption is based in part upon Subscriber’s representations, warranties and agreements contained in this Subscription Agreement and in the Qualified Purchaser Questionnaire that Subscriber is also delivering to the Company.

C. Representations, Warranties, Acknowledgements and Agreements

In order to induce the Company to accept this Subscription Agreement, Subscriber represents, warrants, acknowledges and covenants to the Company as follows:

(1) Subscriber understands that (i) this Subscription Agreement may be accepted or rejected in whole or in part by the Company in its sole and absolute discretion, and (ii) this Subscription Agreement shall survive Subscriber's death, disability or insolvency, except that Subscriber shall have no obligation in the event that this Subscription Agreement is rejected by the Company. In the event that the Company does not accept Subscriber's subscription, or if the Offering is terminated for any reason, Subscriber's subscription payment (or portion thereof, as the case may be) will be returned to Subscriber without interest or deduction.

(2) Subscriber has carefully read this Subscription Agreement, the Qualified Purchaser Questionnaire, and the Memorandum, including the Company's Annual Report on Form 10-[INSERT INFORMATION HERE] for the fiscal year ended December 31, [INSERT INFORMATION HERE] (including, without limitation, the risks set forth under the heading "Risk Factors"), its Quarterly Report on Form 10-Q for the quarter ended March 31, [INSERT INFORMATION HERE] and its Current Reports, attached as exhibits thereto (collectively, the "Offering Materials"). In making the decision to invest in the Securities, Subscriber has relied solely upon the information provided by the Company in the Offering Materials. To the extent necessary, Subscriber has discussed with his, her or its counsel the representations, warranties and agreements which Subscriber makes by signing this Subscription Agreement, the applicable limitations upon Subscriber's resale of the Securities, and the investment, tax and legal consequences of this Subscription Agreement. Subscriber disclaims reliance on any statements made or information provided by any person or entity in the course of Subscriber's consideration of an investment in the Securities other than the Offering Materials.

(3) Subscriber understands that no federal or state agency has made any finding or determination regarding the fairness of the Offering, or any recommendation or endorsement of the Securities.

(4) Subscriber is purchasing the Securities for Subscriber's own account, with the intention of holding the Securities for investment purposes, with no present intention of dividing or allowing others to participate in this investment or of reselling or otherwise participating, directly or indirectly, in a distribution of the Securities; and Subscriber agrees not to make any sale, transfer or other disposition of the Securities without registration under the 1933 Act and applicable state securities laws unless counsel acceptable to the Company is of the opinion that such registration is not required. Subscriber is not acquiring the Securities, or any interest therein, on behalf of another person and Subscriber, if an entity, was not formed for the purpose of purchasing the Securities.

(5) Subscriber's overall commitment to investments which are not readily marketable is not disproportionate to Subscriber's net worth, and Subscriber's investment in the Securities will not cause such overall commitment to become excessive.

(6) Subscriber, if an individual, has adequate means of providing for his or her current needs and personal and family contingencies and has no need for liquidity in his or her investment in the Securities.

(7) Subscriber is an "accredited investor" as that term is defined in Rule 501(a) under Regulation D promulgated by the Securities and Exchange Commission (the "SEC") under the 1933 Act. Subscriber is financially able to bear the economic risk of this investment, including the ability to afford holding the Securities for an indefinite period or to afford a complete loss of this investment.

(8) The address shown on the signature page to this Subscription Agreement is Subscriber's principal residence if he or she is an individual, or its principal business address if a corporation or other entity.

(9) Subscriber, together with any offeree representatives of Subscriber (as identified in the Qualified Purchaser Questionnaire) has such knowledge and experience in financial business matters as to be capable of evaluating the merits and risks of an investment in the Securities. Subscriber acknowledges that the Offering Materials may not contain all information that is necessary to make an investment decision with respect to the Company and the Securities and that Subscriber must rely on his, her or its own examination of the Company and the terms and conditions of the Offering prior to making any investment decision with respect to the Securities.

(10) Subscriber has been given the opportunity to ask questions of and receive answers from the Company and its executive officers concerning the business and operations of the Company and the terms, provisions, and conditions of the Offering and to obtain any such additional information that Subscriber deems necessary or advisable to verify the accuracy of the information contained in the Memorandum, or such other information as Subscriber desired in order to evaluate an investment in the Company; and Subscriber availed himself, herself or itself of such opportunity to the extent considered appropriate in order to evaluate the merits and risks of the proposed investment.

(11) Subscriber has made an independent evaluation of the merits of the investment and acknowledges the highly speculative nature of an investment in the Securities including, without limitation, the information under "Risk Factors" in the Memorandum.

(12) The information provided by Subscriber in the Qualified Purchaser Questionnaire is true, complete and accurate and Subscriber has duly executed and delivered such Qualified Purchaser Questionnaire and any applicable exhibits thereto.

(13)

(i) Subscriber understands that the Securities have not been registered under the 1933 Act or any state securities laws in reliance on exemptions for private offerings; and that the Securities cannot be resold or otherwise disposed of unless they are subsequently registered under the 1933 Act and applicable state securities laws or an exemption from registration is available. The certificate(s) representing the Securities will bear a legend substantially similar to the legend set forth immediately below until (i) such Securities shall have been registered under the 1933 Act and effectively disposed of in accordance with a registration statement, or (ii) in the opinion of counsel reasonably satisfactory to the Company such securities may be sold without registration under the 1933 Act:

"These securities have not been registered under the securities act of 1933, as amended (the "1933 act"), or the "blue sky" or securities laws of any state and may not be offered, sold, pledged, hypothecated, assigned or transferred except (i) pursuant to a registration statement under the 1933 act which has become effective and is current with respect to these securities, or (ii) pursuant to a specific exemption from registration under the 1933 act but only upon a holder thereof first having obtained the written opinion of counsel reasonably satisfactory to the company, that the proposed disposition is consistent with all applicable provisions of the 1933 act as well as any applicable "blue sky" or similar securities laws."

(ii) Subscriber also understands that, except as set forth in Section D of this Subscription Agreement, Subscriber will have no rights to require the Company to register the Shares, the Warrants or the Warrant Shares under the 1933 Act or any state securities laws; Subscriber may have to hold the Securities indefinitely and it may not be possible for Subscriber to liquidate his, her or its investment in the Company at the time Subscriber desires to do so. Subscriber has been advised to refrain from purchasing the Securities unless he, she or it can afford a complete loss of his, her or its investment and bear the burden of such loss for an indefinite period of time.

(14) Subscriber, if an individual, is at least 21 years of age.

(15) If at any time prior to issuance of the Securities to Subscriber, any representation or warranty of Subscriber shall no longer be true, Subscriber promptly shall give written notice thereof to the Company specifying which representations and warranties are not true and the reason therefore, whereupon Subscriber's subscription may be rejected by the Company in whole or in part.

(16) Notwithstanding the place where this Subscription Agreement may be executed by any of the parties hereto, all of the terms, provisions, and conditions hereof shall be construed in accordance with and governed by the laws of the State of New York, without giving effect to its conflict of laws principles. Any dispute that may arise out of or in connection with this Subscription Agreement shall be adjudicated before a court located in New York City and the parties hereto submit to the exclusive jurisdiction and venue of the state and local courts of the State of New York located in New York City and of the federal courts in the Southern District of New York with respect to any action or legal proceeding commenced by any party, and irrevocably waive any objection they now or hereafter may have respecting the venue of any action or proceeding brought in such a court or respecting the fact that such court is an inconvenient forum, relating to or arising out of this Subscription Agreement or any acts or omissions relating to the sale of the Securities, and Subscriber consents to the service of process in any such action or legal proceeding by means of registered or certified mail, return receipt requested, in care of the address set forth below or such other address as Subscriber shall furnish in writing to the Company.

(17) subscriber hereby waives trial by jury in any action or proceeding involving, directly or indirectly, any matter (whether sounding in tort, contract, fraud or otherwise) in any way arising out of or in connection with this subscription agreement or subscriber's purchase of the securities.

(18) Subscriber acknowledges that he, she or it understands the meaning and legal consequences of the representations, warranties and acknowledgments contained in this Subscription Agreement and in the Qualified Purchaser Questionnaire, and hereby agrees to indemnify and hold harmless the Company, and each of its stockholders, officers, directors, affiliates, controlling persons, agents and representatives, from and against any and all loss, damage, expense, claim, action, suit or proceeding (including the reasonable fees and expenses of legal counsel) as incurred arising out of or in any manner whatsoever connected with (i) a breach of any representation or warranty of Subscriber contained in this Subscription Agreement or in the Qualified Purchaser Questionnaire (ii) any sale or distribution by Subscriber in violation of the 1933 Act or any applicable state securities laws or (iii) any untrue statement of a material fact made by Subscriber and contained herein or in the Qualified Purchaser Questionnaire, or omission to state herein or in the Qualified Purchaser Questionnaire, a material fact necessary in order to make the statements contained herein or in the Qualified Purchaser Questionnaire, in light of the circumstances under which they were made, not misleading. Subscriber acknowledges that such damage could be substantial since (a) the Securities are being offered without registration under the 1933 Act in reliance upon the exemption pursuant to Section 4(2) and/or Regulation D of the 1933 Act for transactions by an issuer not involving a public offering and, in various states, pursuant to exemptions from registration, (b) the availability of such exemptions is, in part, dependent upon the truthfulness and accuracy of the representations made by Subscriber herein and in its Qualified Purchaser Questionnaire, and (c) the Company will rely on such representations in accepting Subscriber's Subscription Agreement.

(19) Subscriber is not subscribing for the Securities as a result of or subsequent to any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over

television or radio, any seminar or meeting, or any solicitation of a subscription by a person not previously known to Subscriber in connection with investments in securities generally.

(20) Unless otherwise indicated on a separate sheet of paper that details any such affiliation submitted by Subscriber to the Company along with this completed Subscription Agreement, Subscriber is not affiliated directly or indirectly with a member broker-dealer firm of the National Association of Securities Dealers, Inc. As an employee, officer, director, partner or shareholder or as a relative or member of the same household of an employee, director, partner or shareholder of an NASD member broker-dealer firm.

(21) Except as expressly provided herein, this Subscription Agreement contains the entire agreement between the parties with respect to the transactions contemplated hereunder and may be amended only by a writing executed by all of the parties hereto. Subscriber represents that he, she or it has full power and authority (corporate, statutory or otherwise) to execute and deliver this Subscription Agreement and the other Offering Materials to which Subscriber is a party and to purchase the Securities. The execution, delivery and performance of this Subscription Agreement and the Qualified Purchaser Questionnaire will not: (i) violate, conflict with or result in a default under any provision of the Certificate or By-Laws (or analogous organizational documents), if any, of Subscriber; or (ii) violate or result in a violation of, or constitute a default (whether after the giving of notice, lapse of time or both) under, any provision of any law, regulation or rule, or any order of, or any restriction imposed by any court or other governmental agency applicable to Subscriber, except for those which do not, or are not reasonably likely to, adversely affect Subscriber's ability to perform its obligations under this Subscription Agreement and the Qualified Purchaser Questionnaire and to consummate the transactions contemplated hereby and thereby. This Subscription Agreement constitutes the legal, valid and binding obligation of Subscriber, enforceable against Subscriber in accordance with its terms. This Subscription Agreement supersedes all prior arrangements or understandings with respect thereto, whether oral or written. The terms and conditions of this Subscription Agreement shall inure to the benefit of and be binding upon the parties and their respective successors, heirs and assigns.

(22) Subscriber understands that the Company intends to use the net proceeds from the Offering for, among other things, sales and marketing, capital expenditures, and other corporate and working capital purposes.

In order to induce Subscriber to execute and deliver this Subscription Agreement, the Company represents, warrants, and covenants to Subscriber as follows:

(1) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly authorized to transact business as a foreign corporation in the State of New York. The Corporation has full power and authority to own its properties and to carry on its business as currently conducted.

(2) The execution, delivery and performance by the Company of this Subscription Agreement and the Offering and sale of Shares to accredited investors contemplated hereby shall, assuming the representations and warranties of Subscriber are correct, be in compliance with the exemptions from registration set forth in Regulation D and/or Section 4(2) of the 1933 Act and applicable state securities "blue sky" laws, and the Company, in reliance on the representations and warranties of Subscriber, shall make all filings required to qualify for such exemptions. No additional permit, license, exemption, consent, authorization or approval of, or the giving of any notice by the Company to, any governmental or regulatory body, agency or authority is required in order for the Company to execute, deliver and perform its obligations hereunder, which has not been made, or will not when required be made, by the Company. No notice by the Company to any third party, and no consent or approval of any third party, of the Company's execution, delivery and performance of this Subscription Agreement is required which has not been given or obtained.

(3) The Company has the requisite power and authority to execute and deliver this Subscription Agreement, and perform its obligations herein, and consummate the transactions contemplated hereby. Upon the acceptance of Subscriber's subscription by the Company and the execution of this Subscription Agreement by the Company, this Subscription Agreement will be a valid, legal and binding obligation of the Company enforceable against the Company in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject to general principles of equity (regardless of whether such enforcement is considered in a proceeding at law or at equity).

(4) The Company has reserved a sufficient number of shares of Common Stock for issuance upon exercise of the Warrants included in the Securities subscribed to hereunder.

(5) The Shares and the Warrants have been duly authorized and when issued in accordance with the terms hereof will be validly issued, fully paid and non-assessable. The Warrant Shares have been duly authorized and when paid for and issued in accordance with the terms of the Warrants, will be validly issued, fully paid and non-assessable.

D. Registration Rights

(1) The Company shall use its best efforts to file a registration statement with the SEC in order to register the resale of the Shares and Warrant Shares subscribed to hereunder (hereinafter collectively referred to in this

Section D as the “Registrable Securities”) under the 1933 Act. In addition, the Company shall use its best efforts to cause such registration statement to become effective as soon as practicable after the date of such initial filing. Notwithstanding the foregoing, the Company shall have no obligation to register any Registrable Securities that may be sold pursuant to Rule 144 under the 1933 Act (“Rule 144”) without regard to provisions applicable to sales by affiliates, or that are otherwise freely transferable without registration under the Securities Act.

(2) In connection with the registration statement described in Section D(1), the Company shall use its best efforts to:

(a) cause the registration statement with respect to the Registrable Securities to remain effective for the earliest of (i) the second anniversary of the date the registration statement has been declared effective, (ii) such time as all of the Registrable Securities can be sold without regard to volume limitations pursuant to Rule 144 under the Securities Act (“**Rule 144**”) and (iii) the date all of the Registrable Securities have been sold by Subscriber;

(b) prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for the applicable period in accordance with the provisions of Section D(2), above;

(c) notify Subscriber, promptly after it shall receive notice thereof, of the time when such registration statement or a supplement to any prospectus forming a part of such registration statement has become effective;

(d) notify Subscriber of the occurrence of any event that results in the registration statement no longer being current; and prepare and file with the SEC any amendments or supplements to such registration statement or prospectus which is required under the 1933 Act or the rules and regulations promulgated thereunder in connection with the resale of the Registrable Securities by Subscriber;

(e) advise Subscriber promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Division of Enforcement of the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued; and

(f) indemnify and hold harmless Subscriber against any and all losses, claims, damages or liabilities to which Subscriber shall become subject, under the 1933 Act or otherwise, that arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the effective registration statement or any prospectus that forms a part thereof or any amendment or supplement thereto, or arise out of or are based upon any omission or alleged omission to state therein A material fact required to be stated therein or necessary to make the statements there in not misleading; provided, however, that no such indemnification shall be available to subscriber (and subscriber shall indemnify and hold harmless the company) with respect to, and to the extent there is liability attributable to, written information provided by subscriber to the company for use in such registration statement or prospectus thereunder or any amendment or supplement thereto, or any related preliminary prospectus.

(3) The parties also agree that:

(a) All fees, costs and expenses of and incidental to the registration of Registrable Securities shall be borne by the Company; provided, however, that Subscriber shall bear the commissions and other selling costs and transfer taxes attributable to its sales, as well as any professional fees or costs of accounting, financial or legal advisors to Subscriber.

(b) The fees, costs and expense of registration to be borne by the Company as provided in Section D(3)(a) above shall include, without limitation, all registration, filing fees, exchange or market listing fees, printing expenses, fees and disbursements of counsel and accountants for the Company, and all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered and qualified.

(c) Upon the proper and lawful transfer of any of the Registrable Securities by Subscriber prior to such time as the Securities have been resold pursuant to a registration statement contemplated by this Section D, the registration rights attendant to such Registrable Securities shall be transferable hereunder if: (i) Subscriber gives prior written notice to the Company; (ii) such transferee agrees to execute a counterpart to this Subscription Agreement agreeing to comply with the terms and provisions of this Subscription Agreement, whereupon such transferee shall have the benefits of, and shall be subject to the restrictions contained in, this Subscription Agreement as if such transferee had originally been a party hereto; (iii) such transfer is otherwise in compliance with this Subscription Agreement; and (iv) such transfer is otherwise effected in accordance with applicable securities laws.

(d) The registration statement described in this Section D may include shares and warrant shares (“Other Securities”) acquired by other subscribers in the Offering (who, collectively with Subscriber, are referred to as “Participating Holders”). The registration statement shall be prepared in accordance

with applicable rules and regulations of the SEC at the time the registration statement is filed ("Applicable Rules"). In the event that Applicable Rules do not permit registration of all of the Registrable Securities and all of Other Securities, Subscriber authorizes the Company to revise the number of securities covered by the registration statement in such manner as the Company, in the exercise of its good faith judgment, may determine so that the securities covered by the registration statement comply with Applicable Rules; provided that, to the extent reasonably feasible, the Company shall include each Participating Holder's pro-rata portion of registrable securities in the filing. Subject to the foregoing, in the event Applicable Rules do not permit the Company to include all Subscriber's Registrable Securities in the registration statement, the Company shall file such amendments to the registration statement, and/or such other and further registration statements, as and when permitted by Applicable Rules, such that all of the Registrable Securities are covered by an effective registration statement.

F. Notice Provisions

Any and all notices, demands or requests required or permitted to be given under this Subscription Agreement shall be given in writing and sent, by registered or certified U.S. mail, return receipt requested, by facsimile transmission with proof of electronic transmission, by hand, or by overnight courier, addressed to the parties hereto at their addresses set forth above or such other addresses as they may from time-to-time designate by written notice, given in accordance with the terms of this Section E, together with copies thereof as follows:

In the case of the Company to:

[INSERT INFORMATION HERE]

Attn: [INSERT INFORMATION HERE]

With a copy to:

[INSERT INFORMATION HERE]

Attn: [INSERT INFORMATION HERE]

And with a copy to:

[INSERT INFORMATION HERE]

Attention: [INSERT INFORMATION HERE].

In the case of Subscriber, to the address of Subscriber on the signature page to this Agreement.

Notice given as provided in this Section shall be deemed effective: (i) on the business day hand delivered (or, if it is not a business day, then the next succeeding business day thereafter), (ii) on the first business day following the sending thereof by overnight courier, and (iii) on the seventh calendar day (or, if it is not a business day, then the next succeeding business day thereafter) after the depositing thereof into the exclusive custody of the U.S. Postal Service. As used herein, the term business day (other than Saturday or Sunday) shall mean any day when commercial banks are open in the State of New York to accept deposits.

G. Miscellaneous.

(1) This Subscription Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective heirs, legal representatives, successors and assigns. This Subscription Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

(2) No term or provision contained herein may be modified, amended or waived except by written agreement or consent signed by the party or parties to be bound thereby. A waiver by either party of a breach of any provision of this Subscription Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

(3) Subscriber acknowledges that the subscription made hereby is not binding upon the Company until the Company accepts it. The Company has the right to accept or reject this subscription in whole or in part in its sole and absolute discretion. If this subscription is rejected in whole, the Company shall return the Purchase Price to Subscriber, without interest or deduction, and the Company and Subscriber shall have no further obligation to each other by reason of this Subscription Agreement or the subscription made hereby.

SIGNATURE PAGE FOR:

INDIVIDUAL INVESTOR

IN WITNESS WHEREOF, this Subscription Agreement has been executed by Subscriber and by the Company on the respective dates set forth below.

Signature _____ Signature (If Purchased Jointly) _____

Name _____ Name _____
Please Print _____ Please Print _____

Address _____ Address _____

Telephone # _____ Telephone # _____

Fax # _____ Fax # _____

Email: _____ Email: _____

Social Security # _____ Social Security # _____

Date: _____ Date: _____

EXACT Name in which Securities are to be Registered: _____

Purchase Price: \$ _____

Form of Joint Ownership (*if applicable*): JTEN JWROS JTIC

Subscription Accepted:
FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By:

Name: ___[INSERT INFORMATION HERE]

Title: [INSERT INFORMATION HERE]

Date: _____

Subscription and Rights Agreement

SIGNATURE PAGE FOR:
PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY OR TRUST

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement on the date set forth below:

Name of Partnership, Corporation, and Limited Liability Company or Trust

By: _____ Federal Tax ID Number _____

Name:

Title: _____ State of Organization _____

Address: _____

Telephone: _____

Fax:

Email:

Date:

EXACT Name in which Securities are to be Registered: _____

Purchase Price: \$ _____

Subscription Accepted:
FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By:

Name: [INSERT INFORMATION HERE]

Title: [INSERT INFORMATION HERE]

Date:

EXHIBIT D – FORM OF COMMON STOCK PURCHASE WARRANT

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE SALE IS MADE IN ACCORDANCE WITH RULE 144 OR A BONA FIDE PLEDGE OR CUSTODIAL ARRANGEMENT WITH RESPECT TO SUCH SECURITIES OR (3) AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY IS DELIVERED STATING THAT SUCH REGISTRATION IS NOT REQUIRED.

Warrant No. 1 Up to [_____] shares of

Common Stock, subject to adjustment

Warrant

Fusion Telecommunications International, Inc.

Fusion Telecommunications International, Inc. (the "Company" or the "Issuer"), a Delaware corporation, for value received, hereby certifies that _____, or its registered permitted assigns, is the registered holder (the "Holder") of rights to purchase from the Issuer up to [_____(____)]1 (the "Warrant Number") duly authorized, validly issued, fully paid and non-assessable shares of common stock, par value \$0.01 per share (the "Common Stock"), of the Issuer at a price per share equal to the Warrant Price (as defined herein), subject to the terms, conditions and adjustments set forth below in this warrant (this "Warrant").

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1. Warrant.

The Warrant represented hereby has been issued pursuant to the Subscription and Rights Agreement dated [INSERT INFORMATION HERE] (the "Subscription Agreement"), and is subject to the terms and conditions thereof. Unless otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Subscription Agreement.

1.1 Warrant Number and Price; Warrant Term.

(a) Warrant Number and Price. Subject to the provisions of this Warrant:

(i) this Warrant entitles the Holder to purchase at any time during the Warrant Term for the Warrant Price up to the Warrant Number of shares of Common Stock, subject to adjustment as set forth herein;

(ii) The "Warrant Price" shall be a price per share equal to [INSERT INFORMATION HERE]% of the purchase price of the Common Stock purchased².

(b) Warrant Term.

The "Warrant Term" shall mean from and after the Closing Date (herein defined) until sixty months thereafter³

1.2 Manner of Exercise.

(a) The Warrant may be exercised by the Holder, in whole or in part, from time to time during the Warrant Term, by presentation and surrender hereof to the Issuer at its principal office with of a notice in substantially the form attached to this Warrant as Exhibit 1 duly executed by such Holder (a "Warrant Notice") and accompanied by payment of the Warrant Price for the number of shares of Common Stock specified in such form. Any such exercise shall be irrevocable. As soon as practicable after each such exercise of this Warrant, but not later than five (5) Business Days from the receipt the Warrant Notice, the Issuer shall issue and deliver to the Holder a certificate or certificates for the shares of Common Stock issuable upon such exercise, registered in the name of the Holder or its designee.

2. Reservation of Shares.

For so long as this Warrant has not been exercised in full, the Issuer shall, at all times prior to the end of the Warrant Term, reserve and keep available free from any pre-emptive rights that would reduce the number of shares issuable to the Holder under this Warrant, out of its authorized but unissued capital stock, the number of shares of Common Stock available for exercise hereunder. In the event the number of Common Shares plus all other shares of Common Stock outstanding and otherwise reserved for issuance exceeds the total authorized number of shares of Common Stock, the Issuer shall promptly take all actions necessary to increase the authorized number of shares of Common Stock, including causing its board of directors to call a special meeting of stockholders and recommend such increase.

3. Transfer and Assignment.

By accepting delivery of this Warrant, the Holder covenants and agrees with the Issuer not to exercise the Warrant or transfer the Warrant or the Common Shares represented hereby except in compliance with the terms of this Warrant. By accepting delivery of this Warrant, the Holder further covenants and agrees with the Issuer that the Warrant may not be sold or assigned, in whole or in part, unless such sale or assignment complies with applicable federal and state securities laws and the terms of this Warrant. As condition precedent to any transfer, the Holder shall provide the Issuer with an opinion of counsel in such form as the Issuer may reasonably require. If a portion of the Warrant evidenced hereby is transferred in compliance with the terms of this Warrant, all rights of the Holder hereunder may be exercised by the transferee provided that any Holder of the Warrant may deliver a Warrant Notice only with respect to such Holder's portion of the Warrant.

4. Taxes.

The Issuer will pay all documentary stamp taxes (if any) attributable to the issuance of Common Stock upon the exercise of the Warrant by the Holder; provided, however, that the Issuer shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the registration of the Warrant or any certificates for Common Shares in a name other than that of the Holder of the Warrant surrendered upon the exercise of the Warrant, and the Issuer shall not be required to issue or deliver a Warrant evidencing rights thereunder or certificates for Common Shares unless or until the person or persons requesting the issuance thereof shall have paid to the Issuer the amount of such tax or shall have established to the reasonable satisfaction of the Issuer that such tax has been paid.

5. Adjustments.

The number of share of Common Stock issuable upon exercise of the Warrant is subject to adjustment for stock splits, re-combinations, stock dividends and the like, as may be determined in good faith by the Company's Board of Directors.

6. Business Combinations.

In case the Issuer on or after the date hereof is party to any (a) acquisition of the Issuer by means of merger or other form of corporate reorganization in which outstanding shares of the Issuer are exchanged for securities or other consideration issued, or caused to be issued, by the Acquiring Person, herein defined, or its Parent, herein defined, Subsidiary, herein defined, or affiliate, (b) a sale of all or substantially all of the assets of the Issuer (on a consolidated basis) in a single transaction or series of related transactions, (c) any other transaction or series of related transactions by the Issuer or relating to the Common Stock (including without limitation, any stock purchase or tender or exchange offer) in which the power to cast the majority of the eligible votes at a meeting of the Issuer's stockholders at which directors are elected is transferred to a single entity or group acting in concert, or (d) a capital reorganization or reclassification of the Common Stock or other securities (other than a reorganization or reclassification in which the Common Stock or other securities are not converted into or exchanged for cash or other property, and, immediately after consummation of such transaction, the stockholders of the Issuer immediately prior to such transaction own the Common Stock, other securities or other voting stock of the Issuer in substantially the same proportions relative to each other as such stockholders owned

immediately prior to such transaction), then, and in the case of each such transaction (each of which is referred to herein as "Change in Control"), proper provision shall be made so that, at the option of the Acquiring Person and upon fifteen days' notice to the Issuer and the Holder prior to the consummation of the Change of Control, either (i) the Acquiring Person expressly agrees to assume all of the Issuer's obligations under the Warrant or (ii) the Holder has fifteen (15) days in which to exercise its rights under the Warrant. If Holder does not exercise its rights during such fifteen (15) day period, all rights under the Warrant shall terminate and the Warrant shall be of no further force and effect. The Issuer, to the extent feasible, shall provide the Holder with thirty (30) days' notice of the consummation of any Change of Control. Subject to the foregoing, on or before the closing date under the agreement entered into with an Acquiring Person resulting in a Change in Control, the Issuer, if applicable, shall deliver to the Holder written notice that the Acquiring Person has assumed such obligations. "Acquiring Person" means, in connection with any Change in Control, (i) the continuing or surviving corporation of a consolidation or merger with the Issuer (if other than the Issuer), (ii) the transferee of all or substantially all of the properties or assets of the Issuer, (iii) the corporation consolidating with or merging into the Issuer in a consolidation or merger in connection with which the Common Stock is changed into or exchanged for stock or other securities of any other Person or cash or any other property, (iv) the entity or group (other than Holder or any of its affiliates) acting in concert acquiring or possessing the power to cast the majority of the eligible votes at a meeting of the Issuer's stockholders at which directors are elected, or, (v) in the case of a capital reorganization or reclassification, the Issuer, or (vi) at the Holder's election, any Person that (A) controls the Acquiring Person directly or indirectly through one or more intermediaries, (B) is required to include the Acquiring Person in the consolidated financial statements contained in such Parent's Annual Report on Form 10-K (if such Person is required to file such a report) or would be required to so include the Acquiring Person in such Person's consolidated financial statements if they were prepared in accordance with U.S. GAAP and (C) is not itself included in the consolidated financial statements of any other Person (other than its consolidated subsidiaries). "Parent" shall mean any corporation (other than the Acquiring Person) in an unbroken chain of corporations ending with the Acquiring Person, provided each corporation in the unbroken chain (other than the Acquiring Person) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. "Subsidiary" shall mean any corporation at least 50% of whose outstanding voting stock shall at the time be owned directly or indirectly by the Acquiring Person or by one or more Subsidiaries.

7. Lost or Stolen Warrant.

In case this Warrant shall be mutilated, lost, stolen or destroyed, the Issuer may in its discretion issue in exchange and substitution for and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor, but only upon receipt of evidence reasonably satisfactory to the Issuer of such loss, theft or destruction of such Warrant. Applicants for a substitute Warrant shall also comply with such other reasonable regulations and pay such other reasonable charges as the Issuer may prescribe.

8. Agent.

The Issuer (and any successor) shall at all times maintain a register of the holders of the Warrant.

9. Notice.

All notices and other communications from the Issuer to the Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid, or overnight courier, at such address as may have been furnished to the Issuer or the Holder, as the case may be, in writing by the Issuer or such Holder from time to time.

10. Miscellaneous.

10.1 This Warrant shall be governed by, and construed in accordance with, the internal laws of the State of New York (including Sections 5-1401 and 5-1402 of the New York General Obligation Law), and the Issuer hereby submits to the non-exclusive jurisdiction of any state or federal court in the Southern District of New York and any court hearing any appeal therefrom, over any suit, action or proceeding against it arising out of or based upon this Warrant (a "Related Proceeding"). The Issuer hereby waives any objection to any Related Proceeding in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceeding has been brought in an inconvenient forum.

10.2 Any and all remedies set forth in this Warrant: (i) shall be in addition to any and all other remedies the Holder or the Issuer may have at law or in equity, (ii) shall be cumulative, and (iii) may be pursued successively or concurrently as each of Holder and the Issuer may elect. The exercise of any remedy by the Holder or the Issuer shall not be deemed an election of remedies or preclude the Holder or the Issuer, respectively, from exercising any other remedies in the future.

10.3 For purposes of this Warrant, except as otherwise expressly provided or unless the context otherwise requires:

(i) the terms defined in this Warrant have the meanings assigned to them in this Warrant and include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender and neuter gender of such term; (ii) accounting terms not otherwise defined herein have the meanings assigned to them in accordance with U.S. GAAP; (iii) references herein to "Articles", "Sections", "Subsections", "Paragraphs" and other subdivisions without reference to a document are to designated Articles, Sections, Subsections, Paragraphs and other subdivisions of this Warrant, unless the context shall otherwise require; (iv) a reference to a Subsection without further reference to a Section is a reference to such Subsection as contained in the same Section in which the reference appears, and this rule shall also apply to Paragraphs and other subdivisions; (v) the words "herein", "hereof", "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular provision; (vi) the term "include" or "including" shall mean without limitation; (vii) any agreement, instrument or statute defined or referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein; and (viii) references to a Person are also to its permitted successors and assigns and, in the case of an individual, to his or her heirs and estate, as applicable.

10.4 If any term or other provision of this Warrant is invalid, illegal or incapable of being enforced by any rule of law or public policy all other conditions and provisions of this Warrant shall nevertheless remain in full force and effect. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the undersigned agrees that the court making such determination shall have the power to reduce the scope, duration, area or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Issuer shall negotiate in good faith to modify this Warrant so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

10.5 All dollar (\$) amounts set forth herein refer to United States dollars. All payments hereunder and thereunder will be made in lawful currency of the United States of America

10.6 The Issuer may not assign its obligations under this Warrant other than by operation of law or in connection with a merger or sale of all or substantially all of the Issuer's assets or stock or a Change in Control of the Issuer. Subject to the terms hereof, Holder may assign, pledge, hypothecate or transfer any of the rights and associated obligations contemplated by this Warrant, in whole or in part, at its sole discretion (including, but not limited to, assignments, pledges, hypothecations and transfers in connection with hedging transactions with respect to this Warrant).

10.7 The Issuer has agreed to register the shares of Common Stock issuable upon exercise of this Warrant to the extent set forth in the Subscription Agreement. The Issuer will not be obligated to deliver any Registrable Securities, and there are no contractual penalties for failure to deliver any such securities, if a registration statement is not effective at the time of exercise

10.8 The failure or inability of the Issuer to maintain the effectiveness of such registration statement shall not in any way prevent the expiration of this Warrant at the end of the Warrant Term.

Notwithstanding anything herein to the contrary, if a Holder upon any Warrant exercise does not consent to accept unregistered Common Stock in lieu of Registered Common Stock, then such Holder's Warrant Notice shall be deemed, without any further action, to have been withdrawn. Moreover, in no event is the Issuer obligated to settle any Warrant exercise, in whole or in part, for cash.

This Warrant shall not be valid unless signed by the Issuer.

[Remainder of Page Left Blank Intentionally]

IN WITNESS WHEREOF, the Issuer has caused this Warrant to be signed by its duly authorized officer.

Dated: [INSERT INFORMATION HERE]

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By: _____

Name: [INSERT INFORMATION HERE]

Title: [INSERT INFORMATION HERE]

[FORM OF WARRANT NOTICE]

(To Be Executed Upon Exercise Of Warrant)

[DATE]

Fusion Telecommunications International, Inc.
420 Lexington Avenue, Suite 1718
New York, New York 10170
Attention: [_____]

Re: Exercise of Warrant

Ladies and Gentlemen:

The undersigned is the registered holder of a warrant (the "Warrant") evidencing certain rights to purchase shares of Fusion Telecommunications International, Inc. (the "Issuer") and hereby elects to exercise the Warrant to purchase _____ shares of Common Stock (as defined in the Warrant) and hereby delivers via wire transfer of immediately available United States funds \$_____ in exchange for such shares of Common Stock, all in accordance with the terms of such Warrant.

In accordance with the terms of the attached Warrant, the undersigned requests that certificates for such shares be registered in the name of and delivered to the undersigned at the following address:

[TO BE ADDED]

[If the number of shares of Common Stock specified above is less than the total number of shares of Common Stock remaining under the Warrant, insert the following -- The undersigned requests that a new Warrant substantially identical to the attached Warrant be issued to the undersigned evidencing rights to exercise additional Warrants equal to the number of shares of Common Stock called for on the face of the current Warrant, as adjusted, minus the gross number of shares of Common Stock delivered to the undersigned in accordance with this Notice.]

HOLDER

By: _____ Name:

Title:

By: _____ Name:

Title:



1 Insert [INSERT INFORMATION HERE]% of the number of shares of Common Stock issued to the holder
2 [INSERT INFORMATION HERE]% of price of Issuer's Common Stock determined at the closing date under the Subscription Agreement (the "Closing Date"), as adjusted pursuant to this Warrant.
3 Date is 60th monthly anniversary of Closing Date.

EXHIBIT 31.1
CERTIFICATION

I, Matthew D. Rosen, certify that:

1. I have reviewed this report of Fusion Telecommunications International, Inc.;
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 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 15(d)-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 quarterly 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 this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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;
 - (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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By: /s/ MATTHEW D. ROSEN

Matthew D. Rosen
Chief Executive Officer

Date: May 15, 2009

EXHIBIT 31.2

CERTIFICATION

I, Barbara Hughes, certify that:

1. I have reviewed this report of Fusion Telecommunications International, Inc.;
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 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 15(d)-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 quarterly 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 this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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;
 - (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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By: /s/ BARBARA HUGHES
Barbara Hughes
Chief Financial Officer

Date: May 15, 2009

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Fusion Telecommunications International, Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

Date: May 15, 2009

By: /s/ MATTHEW D. ROSEN
Matthew D. Rosen
Chief Executive Officer

Date: May 15, 2009

BY: /s/ BARBARA HUGHES
Barbara Hughes
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.