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

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

Commission File Number: 001-32421

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**58-2342021**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
420 Lexington Avenue, Suite 1718, New York, New York	**10170**
(Address of principal executive offices)	(Zip Code)

(212) 201-2400
(Registrant's telephone number, including area code)

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: August 7, 2009.

Title Of Each Class	Number of Shares Outstanding
Common Stock, $0.01 par value	62,882,326

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

	June 30, 2009	December 31, 2008
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,852	$ 427,433
Accounts receivable, net of allowance for doubtful accounts of approximately $541,000 and $635,000 in 2009 and 2008, respectively	2,452,097	3,240,670
Prepaid expenses and other current assets	274,014	261,863
Assets held for sale	20,991	—
Current assets from discontinued operations	360,633	302,533
Total current assets	3,109,587	4,232,499
Property and equipment, net	2,268,594	3,829,669
Other assets:		
Security deposits	51,042	50,241
Restricted cash	416,566	416,566
Intangible assets, net	564,277	810,908
Other assets	55,050	127,908
Total other assets	1,086,935	1,405,623
TOTAL ASSETS	$ 6,465,116	$ 9,467,791
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Long-term debt, current portion – non-related parties	$ 917,500	$ 1,350,000
Long-term debt, current portion – related parties	3,752,992	1,012,992
Capital lease/equipment financing obligations, current portion	112,970	122,960
Accounts payable and accrued expenses	9,773,030	10,039,015
Current liabilities from discontinued operations	28,322	261,972
Total current liabilities	14,584,814	12,786,939
Long-term liabilities:		
Long-term debt, net of current portion- non-related parties	—	960,000
Capital lease/equipment financing obligations, net of current portion	9,385	—
Other long-term liabilities	425,222	485,431
Total long-term liabilities	434,607	1,445,431
Commitments and contingencies		
Stockholders' 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 61,632,326 and 45,750,003 shares issued and outstanding in 2009 and 2008, respectively	616,324	457,500
Capital in excess of par value	126,468,981	124,384,568
Accumulated deficit	(135,639,690)	(129,606,727)
Total stockholders' deficit	(8,554,305)	(4,764,579)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 6,465,116	$ 9,467,791

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenues	$ 8,649,762	$ 11,156,341	$ 17,652,062	$ 22,363,343
Operating expenses:				
Cost of revenues, exclusive of depreciation and amortization shown separately below	7,958,141	10,462,043	16,426,031	20,943,403
Depreciation and amortization	226,944	444,430	716,414	892,110
Loss of impairment of long-lived assets	243,000	—	243,000	—
Selling, general and administrative expenses (includes approximately $85,000 and $192,000 for the three months ended June 30, 2009 and June 30, 2008, respectively, and approximately $120,000 and $306,000 for the six months ended June 30, 2009 and 2008, respectively, stock-based compensation)	2,242,168	2,687,762	4,712,447	5,641,226
Advertising and marketing	3,016	5,091	10,512	16,543
Total operating expenses	10,673,269	13,599,326	22,108,404	27,493,282
Operating loss	(2,023,507)	(2,442,985)	(4,456,342)	(5,129,939)
Other income (expenses):				
Interest income	451	785	610	2,516
Interest expense	(119,841)	(53,197)	(215,781)	(70,587)
Gain on settlements of debt	—	—	—	634,991
Other	1,279	(58,893)	3,493	(60,130)
Total other income (expenses)	(118,111)	(111,305)	(211,678)	506,790
Income (loss) from continuing operations	(2,141,618)	(2,554,290)	(4,668,020)	(4,623,149)
Discontinued operations:				
Loss from discontinued operations	(885,132)	(339,671)	(1,364,943)	(633,801)
Net loss	$ (3,026,750)	$ (2,893,961)	$ (6,032,963)	$ (5,256,950)
Loss applicable to common stockholders:				
Loss from continuing operations	$ (1,898,618)	$ (2,554,290)	$ (4,425,020)	$ (4,623,149)
Preferred stock dividends in arrears	(159,462)	(159,462)	(317,171)	(318,924)
Net loss from continuing operations applicable to common stockholders:	(2,058,080)	(2,713,752)	(4,742,191)	(4,942,073)
Loss from discontinued operations	(885,132)	(339,671)	(1,364,943)	(633,801)
Net loss applicable to common stockholders	$ (2,943,212)	$ (3,053,423)	$ (6,350,134)	$ (5,575,874)
Basic and diluted net loss per common share:				
Loss from continuing operations	$ (1,898,618)	$ (2,554,290)	$ (4,425,020)	$ (4,623,149)
Income (loss) from discontinued operations	—	(339,671)	(1,607,943)	(633,801)
Net loss applicable to common stockholders	$ (0.06)	$ (0.08)	$ (0.12)	$ (0.16)
Weighted average common shares outstanding:				
Basic and diluted	56,822,335	36,141,898	52,438,147	34,480,422

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30	
	2009	**2008**
Cash flows from operating activities:		
Net loss	$ (6,032,963)	$ (5,256,950)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on impairment / continuing operations	243,000	—
Loss on impairment / discontinued operations	545,046	
Depreciation and amortization	716,414	909,258
Gain on sale / disposal of fixed assets	—	59,158
Bad debt expense	125,938	67,500
Stock-based compensation	119,767	306,077
Gain on extinguishment of debt	—	(634,991)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	662,634	1,649,598
Prepaid expenses and other current assets	(124,580)	44,897
Other assets	69,790	(1,511)
Accounts payable and accrued expenses	(265,985)	402,494
Other long-term liabilities	(60,209)	(84,190)
Net cash used in operating activities	(4,001,148)	(2,538,660)
Cash flows from investing activities:		
Purchase of property and equipment	(14,525)	(217,966)
(Payment) for security deposits	(801)	(1,519)
Returns of other intangible assets	2,639	—
Net cash used in investing activities	(12,687)	(219,485)
Cash flows from financing activities:		
Proceeds from sale of Common Stock, net	2,123,471	2,139,167
Proceeds from notes payable — related parties	1,347,500	555,000
Proceeds from notes payable — non-related parties	—	575,000
Payments of long-term debt and capital lease /equipment financing obligations	(24,605)	(66,586)
Repayments of notes payable - related parties	—	(361,768)
Net cash provided by financing activities	3,446,366	2,840,813
Net increase (decrease) in cash and cash equivalents from continuing operations	(567,469)	82,668
Cash flows from discontinued operations:		
Cash provided by operating activities of discontinued operations	141,888	82,689
Cash provided by investing activities of discontinued operations	—	14,950
Net increase in cash and cash equivalents from discontinuing operations	141,888	97,639
Net increase (decrease) in cash and equivalents from continuing and discontinuing operations:	(425,581)	180,307
Cash and cash equivalents, beginning of year	427,433	70,883
Cash and cash equivalents, end of year	$ 1,852	$ 251,190
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 50,224	$ 48,696
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 Consolidated 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 six months ended June 30, 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 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 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. During the period ended June 30, 2009, the Company recognized no adjustments for uncertain tax positions.

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 4,962,578 and 4,313,754 shares of the Company's Common Stock as of June 30, 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 24,860,485 and 16,425,484 shares of the Company's Common Stock as of June 30, 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 $317,000 and $480,000 for the six months ended June 30, 2009 and 2008 respectively. As of June 30, 2009, the Board of Directors had declared no dividend. As of June 30, 2009, the Company has accumulated approximately $1,496,000 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. As of June 30, 2009, the Company recorded a loss on impairment of assets of $545,047.

Stock–Based Compensation

The Company complies with the fair value recognition provisions of SFAS No. 123 (2004 Revised), "Share Based Payment". SFAS No. 123(R) requires that compensation cost for all stock awards be calculated and recognized over the service period (generally equal to the vesting period). This compensation cost is determined using option pricing models intended to estimate the fair value of the awards at the grant date. An offsetting increase to Stockholders' equity is recorded equal to the amount of the compensation expense charge. The fair value of issued stock options and warrants are estimated on the date of grant using the Black-Scholes option-pricing model. The impact on the Company's consolidated results of operations of recording Stock-Based Compensation expense for the six-months ended June 30, 2009 and 2008 was approximately $120,000 and $306,000, 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 six months ended June 30, 2009:

		(unaudited)
Activity	**Number of Options**	**Weighted Average Exercise Price**
Outstanding at January 1, 2009	4,096,609	$ 1.72
Granted	1,273,000	$ 0.11
Cancelled or expired	(407,031)	$ 1.65
Outstanding at June 30, 2009	4,962,578	$ 1.31
Exercisable at June 30, 2009	2,596,671	$ 2.25

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)	
	Six Months Ended June 30 ,	
	2009	**2008**
Dividend yield	0.0%	0.0%
Stock volatility	134.5%	101.35%
Average Risk-free interest rate	2.98%	3.62%
Average option term (years)	4	4

As of June 30, 2009, there was approximately $122,825 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 two years.

Fair Value of Financials 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.

Subsequent Events

The condensed consolidated interim financial statements were approved by the Board of Directors and were issued on August 14, 2009. Subsequent events have been evaluated through this date.

2. Going Concern

At June 30, 2009, the Company had a working capital deficit of approximately $11.5 million and an accumulated deficit of approximately $135.6 million. 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 six months ended June 30, 2009, the Company raised approximately $2.1 million 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 June 30, 2009 and December 31, 2008:

		June 30, 2009 (unaudited)		December 31, 2008
Prepaid expenses	$	243,264	$	241,909
Inventory		27,750		16,954
Notes receivables		3,000		3,000
Total	$	274,014	$	261,863

4. Discontinued Operations

In an effort to streamline operations, reduce expenses, and focus efforts on the development of the Company's corporate services 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, were closed, and twenty-six employees and eleven consultants were 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 June 30, 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 June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
	(unaudited)	
Cash and cash equivalents	$ 14,358	$ 30,813
Accounts receivable, net of allowance for doubtful accounts	54,739	90,237
Prepaid expenses and other current assets	7,911	68,105
Property and equipment, net	282,106	111,859
Other assets	1,519	1,519
Total current assets reclassified to discontinued operations	$ 360,633	$ 302,533
Accounts payable and accrued expenses	$ 28,322	$ 261,972
Current liabilities reclassified to discontinued operations	$ 28,322	$ 261,972

The following is a summary of the operating results of the discontinued operations as of June 30, 2009 and 2008:

	Six Months Ended June 30,	
	2009	**2008**
	(unaudited)	**(unaudited)**
Revenues	$ 449,076	$ 567,314
Cost of revenues	(344,732)	(418,185)
Depreciation and amortization	(263,391)	(32,088)
Loss on impairment of assets	(545,047)	—
Selling, general and administrative	(658,100)	(717,914)
Advertising and marketing	(2,749)	(31,880)
Other income (expense)	0	(1,048)
Net income (loss)	$ (1,364,943)	$ (633,801)

5. Intangible Assets

Identifiable intangible assets, as of June 30, 2009 (unaudited), are comprised of:

		Trademarks		Intellectual Property		Totals
Balance as of January 01, 2009	$	721,871	$	89,037	$	810,908
Current year amortization		(991)		—		(991)
Current year impairment		(243,000)		(2,640)		(245,640)
Balance as of June 30, 2009	$	477,880	$	86,397	$	564,277

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30, 2009 and December 31, 2008:

		June 30, 2009		December 31, 2008
		(unaudited)		
Trade accounts payable	$	7,606,222	$	8,162,514
Accrued expenses		1,132,985		944,443
Accrued payroll and vacation		238,741		200,472
Cost accrual		265,809		274,185
Interest payable		281,225		110,473
Deferred revenue		105,589		186,655
Other		142,459		160,273
	$	9,773,030	$	10,039,015

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

At June 30, 2009 and December 31, 2008, components of long-term debt and capital lease/equipment financing obligations of the Company are comprised of the following:

		June 30, 2009		December 31, 2008
		(unaudited)		
Promissory notes payable – related parties	$	3,752,992	$	1,972,992
Promissory notes payable – non-related parties		917,500		1,350,000
Capital lease/equipment financing obligations		122,355		122,960
Total long-term debt and capital lease/equipment financing obligations		4,792,847		3,445,952
Less portion – capital lease/equipment financing obligations		(112,970)		(122,960)
Less current portion – related parties		(3,752,992)		(1,012,992)
Less current portion – non-related parties		(917,500)		(1,350,000)
	$	9,385	$	960,000

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 June 30, 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 through October of 2009 and bear interest at 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.

On June 19, 2009, the Company borrowed $67,500 from a shareholder. This loan is evidenced by a promissory note, which matures in July of 2009 and bears an interest rate of 8 percent (8%) per annum. In the event that the 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. The note also grants the lender a collateralized security interest in the Company's accounts receivable. The proceeds of this loan was used primarily for general corporate purposes. At June 30, 2009, this note is still outstanding.

Promissory Notes Payable – related parties

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 percent (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. As of June 30, 2009, approximately $353,000 is due under these promissory notes and the Company has not received a demand for payment.

During 2008, the Company borrowed an additional $590,000 from these two Directors, evidenced by ten (10) promissory notes, which matured at different dates throughout 2008 and bear interest at the rate of ten percent (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. At June 30, 2009, approximately $510,000 is due under these promissory notes.

During 2009, the Company borrowed an additional $245,000 from these two directors, evidenced by seven (7) promissory notes, which mature at various dates throughout 2009 and bear interest rates ranging from eight percent (8%) to ten percent (10%) 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 for that note will be payable in full upon ten (10) days notice from the lender. 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 June 30, 2009, $245,000 is outstanding under these promissory notes

During 2008, the Company borrowed an aggregate of $1,760,000 from West End Special Opportunities Fund II, a shareholder of the Company. These loans are evidenced by nine (9) promissory notes bearing interest at rates ranging from ten percent (10%) to thirteen percent (13%) per annum with maturities extending through February 2010. During 2008, the Company repaid two (2) of these promissory notes ($250,000) and converted two (2) additional promissory notes ($400,000) into 2,222,223 shares of Common Stock and 888,890 Warrants to purchase one (1) share of Common Stock. In the event that any note is not repaid by its 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 (10) days notice from the lender. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. At June 30, 2009, approximately $1,110,000 is outstanding under these promissory notes.

During 2009, the Company borrowed an aggregate of $1,410,000 from West End Special Opportunities Fund II, a shareholder of the Company. These loans are evidenced by twelve (12) promissory notes each bearing an interest rate of twelve percent (12%) per annum with maturities extending through June 2010. In the event that any note is not repaid by its 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 (10) days notice from the lender. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. At June 30, 2009, approximately $1,410,000 is outstanding under these promissory notes.

During 2009, the Company borrowed $125,000 from Marose, LLC, of which Marvin Rosen, Chairman of the Board of Directors, is a partner. This loan is evidenced by a promissory note which matures in July of 2009 and bears an interest rate of eight percent (8%) per annum. In the event that the 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 (10) days notice from the lender. The note also grants the lender a collateralized security interest in the Company's accounts receivable. At June 30, 2009, this note remains outstanding.

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

Capital Lease/Equipment Financing Obligations

Future aggregate principal payments for the Company's capital lease / equipment financing obligations as of June 30, 2009 (unaudited) are as follows:

		June 30, 2009
		(unaudited)
Total minimum payments	$	135,808
Less amount representing interest		(13,452)
Present value of minimum payments		122,355
Less current portion		(112,970)
	$	9,385

8. Equity Transactions

Common Stock

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 per share, 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. Through June 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 shares of restricted Common Stock.

From April 8, 2009 through June 29, 2009, the Company entered into subscription agreements with various accredited investors, including three (3) Directors of the Company, Marvin S. Rosen, Philip D. Turits, and E. Alan Brumberger, for the sale of an aggregate 11,313,438 shares of Common Stock, for an aggregate consideration of $1,415,000. In addition, the Company issued five-year Warrants to purchase 3,397,442 shares of Common Stock at exercise prices equal to 120% of the closing price of the Company's Common Stock the day before the respective closing.

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

Preferred Stock

As of June 30, 2009, the Company has authorized 10,000,000 shares of Preferred Stock. As of June 30, 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 eight percent (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 June 30, 2009, the Board of Directors has declared no dividends.

9. Adoption of New 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.

In April 2009, the FASB issued FASB Staff Position ("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 157-4"), which is effective for the Company for the quarterly period beginning April 1, 2009. FSP 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This FSP applies to all fair value measurements when appropriate. FSP 157-4 does not have a material impact on the Company's condensed consolidated financial statements.

In May 2009, the FASB issued FAS No. 165, Subsequent Events ("FAS 165"). FAS 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The statement also sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. Furthermore, this statement identifies the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. We adopted FAS 165 during the second quarter of 2009, as required, and evaluated subsequent events through the filing date of this quarterly report.

10. New Accounting Pronouncements

In June 2009, the FASB issued FAS 166, "Accounting for Transfers of Financial Assets – an amendment for FASB Statement No. 140", improving the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The FASB undertook this project to address (1) practices that have developed since the issuance of FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of the transferors. FAS 166 must be applied as of January 1, 2010, the beginning of our first annual reporting period after November 15, 2009. Earlier application is prohibited. FAS 166 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective, the concept of a qualifying SPE is no longer relevant for accounting purposes. Therefore, a formerly qualifying SPE should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The disclosure provisions of FAS 166 should be applied to transfers that occurred both before and after the effective date of this statement. The adoption of FAS 166 is not currently expected to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No 46 (R)*. SFAS 167 improves financial reporting by enterprises involved with variable interest entities by addressing (1) the effects on certain provisions of FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities* ("FIN 46 (R)"), as a result of eliminating the qualifying special-purpose entity ("SPE") concept in FAS No. 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140* ("FAS 166"), and (2) constituent concerns about the application of certain key provisions of FIN 46 (R), including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. SFAS 167 shall be effective as of January 1, 2010, our first annual reporting period beginning after November 15, 2009. Earlier application is prohibited. The adoption of SFAS 167 is not currently expected to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 ("SFAS 168"). The statement confirmed that the FASB Accounting Standards Codification (the "Codification") will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force ("EITF"), and related literature. After that date, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, becomes effective for interim and annual periods ending on or after September 15, 2009. We will apply the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 is not expected to have any substantive impact on our condensed consolidated financial statements or related footnotes.

11. Commitments and Contingencies

Legal Matters

In July 2009, the Company received a notice of a complaint filed with the SEC regarding the Company's failure to issue certain stock that was to be granted for payment of services that were to have been provided, but those services were not received. The Company has responded to the SEC, advising that the issue is one of a contractual dispute, and requested that the matter be referred to the court system.

In August 2009, Global IP Solutions, Inc. ("GIPS"), a vendor associated with the Company's discontinued operations, filed an action requesting an injunction and a temporary restraining order in the Southern District of New York, Case No. 09-CV-6981, asserting infringement of copyrighted software. The Company is no longer using the software, but is taking measures to ensure that there is not any copyright infringement by any of its former customers or distributors that may have been previously granted access to the software.

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 June 30, 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.

12. 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 services and other 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 appropriate Chief Operating Decision Maker. The Company's segments and their principal activities consist of the following:

Carrier Services

Carrier Services includes VoIP services, which are 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.

Corporate Services 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 services and unallocated represent those expenses that were not appropriate to allocate to each product line.

Operating segment information for the three months ended June 30, 2009 and 2008 is summarized as follows:

Three Months Ended June 30, 2009 (unaudited)

	CARRIER SERVICES	CORPORATE SERVICES AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	$ 8,419,464	$ 230,298	$ —	$ 8,649,762
Cost of revenues (exclusive of depreciation and amortization)	(7,805,934)	(152,207)	—	(7,958,141)
Depreciation and amortization	(217,307)	(9,637)	—	(226,944)
Loss on impairment of long-lived assets	—	—	(243,000)	(243,000)
Selling, general and administrative expenses	(1,553,054)	(689,114)	—	(2,242,168)
Advertising and marketing	(324)	(2,692)	—	(3,016)
Other income (expenses)	(81,497)	(36,614)	—	(118,111)
Total loss from continuing operations	(1,255,558)	(653,060)	—	(2,141,618)
Loss from discontinued operations	—	(885,132)	—	(885,132)
Net loss	$ (1,255,558)	$ (1,538,192)	$ —	$ (3,026,750)
Total Assets	$ 4,855,095	$ 1,112,910	$ 497,110	$ 6,465,115
Capital expenditures	$ 30,762	$ 5,895	$ 9,090	$ 45,747

Three Months Ended June 30, 2008 (unaudited)

	CARRIER SERVICES	CORPORATE SERVICES AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	$ 11,056,610	$ 99,731	$ —	$ 11,156,341
Cost of revenues (exclusive of depreciation and amortization)	(10,416,209)	(45,834)	—	(10,462,043)
Depreciation and amortization	(434,793)	(9,637)	—	(444,430)
Loss on impairment of long-lived assets				
Selling, general and administrative	(2,087,051)	(600,711)	—	(2,687,762)
Advertising and marketing	(2,797)	(2,294)	—	(5,091)
Other income (expenses)	(93,292)	(18,014)	—	(111,305)
Total loss from continuing operations	(1,977,532)	(576,759)	—	(2,554,290)
Loss from discontinued operations	—	(339,671)	—	(339,671)
Net loss	$ (1,977,532)	$ (916,430)	$ —	$ (2,893,961)
Total Assets	$ 7,043,818	$ 8,307,649	$ 402,547	$ 15,754,014
Capital expenditures	$ —	$ 42,841	$ 4,686	$ 47,527

Operating segment information for the six months ended June 30, 2009 and 2008 is summarized as follows:

Six Months Ended June 30, 2009 (Unaudited)

	CARRIER SERVICES	CORPORATE SERVICES AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	$ 17,268,724	$ 383,337	$ —	$ 17,652,062
Cost of revenues (exclusive of depreciation and amortization)	(16,187,553)	(238,479)	—	(16,426,031)
Depreciation and amortization	(481,825)	(234,590)	—	(716,414)
Loss on impairment of long-lived assets			(243,000)	(243,000)
Selling, general and administrative	(2,898,421)	(1,881,348)	—	(4,712,447)
Advertising and marketing	(2,113)	(8,399)	—	(10,512)

Other income (expenses)		(124,538)	(87,139)	—	(211,678)
Total loss from continuing operations		(2,425,726)	(2,066,618)	—	(4,668,020)
Loss from discontinued operations			(1,607,943)	—	(1,364,943)
Net loss	$	(2,425,726) $	(3,674,561) $	— $	(6,032,963)
Total Assets	$	4,855,095 $	1,112,910 $	497,110 $	6,465,115
Capital expenditures	$	54,762 $	11,789 $	17,044 $	83,596

Six Months Ended June 30, 2008 (Unaudited)

		CARRIER SERVICES	CORPORATE SERVICES AND OTHER	CORPORATE AND UNALLOCATED	CONSOLIDATED
Revenues	$	22,254,927 $	108,416 $	— $	22,363,343
Cost of revenues (exclusive of depreciation and amortization)		(20,866,717)	(76,686)	—	(20,943,403)
Depreciation and amortization		(602,727)	(289,383)	—	(892,110)
Loss on impairment of long-lived assets					
Selling, general and administrative		(3,647,300)	(1,993,926)	—	(5,641,226)
Advertising and marketing		(4,770)	(11,773)	—	(16,543)
Other income (expenses)		233,123	273,666	—	506,790
Total loss from continuing operations		(2,633,464)	(1,989,686)	—	(4,623,149)
Loss from discontinued operations		—	(633,801)	—	(633,801)
Net loss	$	(2,633,464) $	(2,623,487) $	— $	(5,256,950)
Total Assets	$	7,043,818 $	8,307,649 $	402,547 $	15,754,014
Capital expenditures	$	22,266 $	170,366 $	25,334 $	217,966

13. Subsequent Events.

On August 7, 2009, the Company entered into a subscription agreement with one (1) accredited investor for the sale of 1,250,000 shares of Common Stock and five-year Warrants to purchase 375,376 shares of Common Stock, in consideration for $125,000. Each warrants is exercisable at $0.12 per share, which is equal to 120% of the closing price of the Company’s Common Stock on the business day before the closing. The proceeds from this sale will be used primarily for general corporate purposes.

In July 2009, the Company received notice of a complaint that had been filed with the SEC regarding the Company’s alleged failure to issue certain stock that was to be issued in payment of services that were to have been provided. The Company has responded to the SEC, advising that the services to be performed were not provided and requested that the matter properly be referred to the court system for resolution. The value of the shares subject to the dispute is approximately $75,000.

In August 2009, Global IP Solutions, Inc. (“GIPS”), a vendor associated with the Company’s discontinued operations, filed an action in the Southern District of New York (case no. 09-CV-6981), requesting an injunction and a temporary restraining order and asserting infringement of copyrighted software. The Company is no longer using the software and disputes the plaintiff’s assertion of infringement, but is taking measures to ensure that there is no copyright infringement by any of the Company’s former customers or distributors that may have been previously granted access to the software.

On August 7, 2009, the Company borrowed $105,000 from a Director, Marvin S. Rosen. The promissory note evidencing this loan provides the lender the right to demand payment at any time of all unpaid principal upon ten (10) days written notice and bears no interest.. The 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 is being 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 June 30,		**Six Months ended June 30,**	
	2009	**2008**	**2009**	**2008**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	$ 8,649,762	$ 11,156,341	$ 17,652,062	$ 22,363,343
Operating expenses:				
Cost of revenues, exclusive of depreciation and amortization, shown separately below	7,958,141	10,462,043	16,426,031	20,943,403
Depreciation and amortization	226,944	444,430	716,414	892,110
Loss on impairment of long-lived assets	243,000		243,000	
Selling, general and administrative expenses (includes approximately $85,000 and $192,000 for the three months ended June 30, 2009 and June 30, 2008, respectively, and approximately $120,000 and $306,000 for the six months ended June 30, 2009 and 2008, respectively, non-cash compensation)	2,242,168	2,687,762	4,712,447	5,641,226
Advertising and marketing	3,016	5,091	10,512	16,543
Total operating expenses	10,673,269	13,599,326	22,108,404	27,493,282
Operating loss	(2,023,507)	(2,442,986)	(4,456,342)	(5,129,940)
Other income (expenses):				
Interest income	451	785	610	2,516
Interest expense	(119,841)	(53,197)	(215,781)	(70,587)
Gain on settlement of debt	0	0	0	634,991
Other	1,279	(58,893)	3,493	(60,130)
Total other income (expenses)	(118,111)	(111,306)	(211,678)	506,789
Income (loss) from continued operations	(2,141,618)	(2,554,291)	(4,668,020)	(4,623,149)
Discontinued operations:				
Income (loss) from discontinued operations	(885,132)	(339,671)	(1,364,943)	(633,801)
Net loss	$ (3,026,750)	$ (2,893,961)	$ (6,032,963)	$ (5,256,950)

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

	Three Months ended June 30		**Six Months ended June 30**	
	2009	**2008**	**2009**	**2008**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Cost of revenues, exclusive of depreciation and amortization, shown separately below	92.0 %	93.8 %	93.1 %	93.7 %
Depreciation and amortization	2.6 %	4.0 %	4.1 %	4.0 %
Loss on impairment of long-lived assets	2.8 %	0.0 %	1.4%	0.0 %
Selling, general and administrative expenses (includes approximately $85,000 and $192,000 for the three months ended June 30, 2009 and June 30, 2008, respectively, and approximately $120,000 and $306,000 for the six months ended June 30, 2009 and 2008, respectively, non-cash compensation)	25.9 %	24.1 %	26.7 %	25.2 %
Advertising and marketing	0.0 %	0.0 %	0.1 %	0.1 %

Total operating expenses	123.3 %	121.9 %	125.4 %	123.0 %
Operating loss	(23.3) %	(21.9) %	(25.4) %	(23.0) %
Other income (expenses):				
Interest income	0.0 %	0.0 %	0.0 %	0.0 %
Interest expense	(1.4) %	(0.5) %	(1.2) %	(0.3) %
Gain on settlement of debt	0.0 %	0.0 %	0.0 %	2.8 %
Other	0.0 %	(0.5) %	0.0 %	(0.3) %
Total other income (expenses)	(1.4) %	(1.0) %	(1.2) %	2.2 %
Income (loss) from continuing operations	(24.7) %	(22.9) %	(26.6) %	(20.8) %
Discontinued operations:				
Income (loss) from discontinued operations	(10.2) %	(3.0) %	(7.7) %	(2.8) %
Net loss	(34.9) %	(25.9) %	(34.3) %	(23.6) %

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 completed its exit from the Consumer segment in the second quarter of 2009 that had been initiated in the first quarter of 2009. 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 JUNE 30, 2009 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2008.

Revenues

Consolidated revenues were $8.6 million during the three months ended June 30, 2009, compared to $11.2 million during the three months ended June 30, 2008, a decrease of $2.5 million or 22.5%. Revenues for Carriers were $8.4 million during the three months ended June 30, 2009, compared to $11.1 million during the three months ended June 30, 2008, a decrease of $2.7 million or 24.2%. This decrease was primarily caused by a decrease in the blended rate per minute and a decrease in the number of minutes.

Revenues for Corporate Services and Other increased $182 K or 280.6%, to $247 K during the three months ended June 30, 2009 from $65 K during the three months ended June 30, 2008. The increase was primarily caused by an increase in our retail business due to a larger customer base.

Cost of Revenues

Consolidated cost of revenues was $8.0 million during the three months ended June 30, 2009, compared to $10.5 million during the three months ended June 30, 2008, a decrease of $2.5 million or 23.9%. Cost of Revenues for Carriers was $7.8 million during the three months ended June 30, 2009, compared to $10.4 million during the three months ended June 30, 2008. The decrease of $2.6 million or 25.1% was the result of a decrease in the number of minutes consistent with the decrease in revenues.

Cost of revenues for Corporate Services and Other during the three months ended June 30, 2009 was $152 K, compared with $46 K during the three months ended June 30, 2008, an increase of $106 K or (232.1%). This increase is primarily due to an increase in our retail business, as we had a larger customer base during the second quarter of 2009 compared to the same period of 2008.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization decreased $0.2 million or 48.9% to $0.2 million during the three months ended June 30, 2009, from $0.4 million during the three months ended June 30, 2008. The depreciation expense decreased as more assets were fully depreciated than were placed into service during the first six months of 2009 compared to the same period of 2008.

Selling, General and Administrative

Selling, general, and administrative expenses decreased $0.4 million or 16.6% during the three months ended June 30, 2009. This decrease is primarily attributable to a further reduction in personnel, and decreases in the areas of salaries, communication, occupancy, consulting and travel and entertainment as the Company completed its exit from the Consumer business and continued to focus on cost containment.

Operating Loss

Operating Loss decreased $0.4 million or 17.2% to a loss of ($2.0) million during the three months ended June 30, 2009, from a loss of ($2.4) million during the three months ended June 30, 2008. The decrease in operating loss was primarily attributable to the Company's completion of its exit from the Consumer business, as well as its continued focus on cost reduction.

Loss from Discontinued Operations

Loss from discontinued operations increased by approximately $0.6 million, or 160.6% to ($0.9) million during the three months ended June 30, 2009, from ($0.3) million during the three months ended June 30, 2008. The main factors contributing to this increase 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 $0.1 million, or 4.6% to ($3.0) million during the three months ended June 30, 2009, from ($2.9) million during the three months ended June 30, 2008. The main factors contributing to this decrease were decreased gross margin, increased interest expenses, and the loss in discontinued operations experienced during the second quarter of 2009.

SIX MONTHS ENDED JUNE 30, 2009 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2008.

Revenues

Consolidated revenues were $17.7 million during the six months ended June 30, 2009, compared to $22.4 million during the six months ended June 30, 2008, a decrease of $4.7 million or 21.1%. Revenues for Carriers were $16.4 million during the six months ended June 30, 2009, compared to $17.2 million during the six months ended June 30, 2008, a decrease of $6.0 million or 22.6%. The 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 $0.3 million or 285.8%, to $418 K during the six months ended June 30, 2009 from $108 K during the six months ended June 30, 2008. The increase was primarily caused by an increase in our retail business due to a larger customer base.

Cost of Revenues

Consolidated cost of revenues was $16.4 million during the six months ended June 30, 2009, compared to $20.9 million during the six months ended June 30, 2008, a decrease of $4.5 million or 21.6%. Cost of Revenues for Carriers was $16.2 million during the six months ended June 30, 2009, compared to $20.9 million during the six months ended June 30, 2008. The decrease of $4.7 million or 22.5% 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 six months ended June 30, 2009 was $245 K, compared with $77 K during the six months ended June 30, 2008, an increase of $168 K or 220%. This increase is primarily due to an increase in our retail business, as we had to support a larger customer base during the second quarter of 2009 compared to the same period of 2008.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization decreased $0.2 million or 20% to $0.7 million during the six months ended June 30, 2009, from $0.9 million during the six months ended June 30, 2008. The depreciation expense decreased as more assets were fully depreciated than were placed into service during the first six months of 2009 compared to the same period of 2008.

Selling, General and Administrative

Selling, general, and administrative expenses decreased $0.9 million or 16.5% during the six months ended June 30, 2009. This decrease is primarily attributable to a further reduction in personnel, and decreases in the areas of salaries, communication, occupancy, consulting and travel and entertainment as the Company completed its exit from the Consumer business and continued to focus on cost containment.

Operating Loss

Operating Loss decreased $0.7 million or 13.1% to a loss of ($4.4) million during the six months ended June 30, 2009, from a loss of ($5.1) million during the six months ended June 30, 2008. The decrease in operating loss was primarily attributable to the completion of the Company's exit from the Consumer business, as well as its continued focus on cost reduction.

Other Income (Expense)

Total other income (expense) changed by $0.7 million from income of $0.5 million during the six months ended June 30, 2008 to expense of ($0.2) million for the six months ended June 30, 2009. The primary reason for this change was due to a gain of $0.6 million associated with the extinguishment of debt with a foreign vendor during the quarter ended June 30, 2008, which did not recur in 2009. In addition, during the quarter ended June 30, 2009, interest expense increased over the same period of the prior year due to increased loans outstanding.

Loss from Discontinued Operations

Loss from discontinued operations increased by approximately $0.7 million or 115.4% to ($1.3) million during the six months ended June 30, 2009, from ($0.6) million during the six months ended June 30, 2008. The main factors contributing to this increase 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 $0.8 million, or 14.8% to ($6.0) million during the six months ended June 30, 2009, from ($5.3) million during the six months ended June 30, 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 half of 2009. In addition, during the first quarter of 2008, the Company recorded a gain associated with the settlement of a debt that did not recur in 2009.

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 June 30, 2009, we had Stockholders' deficit of approximately ($8.6) million as compared to $(4.8) million at December 31, 2008, and a working capital deficit of approximately ($11.5) million as compared to ($8.6) million at December 31, 2008. During the six months ended June 30, 2009, we raised approximately $2.1 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 general working capital purposes. 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:

	Six Months Ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
Cash from continuing operations:		
Cash used in operating activities	$ (4,001,148)	$ (2,538,660)
Cash provided by (used in) investing activities	(12,687)	(219,485)
Cash provided by financing activities	3,446,366	2,840,813
Increase(decrease) in cash and cash equivalents from continuing operations	(567,469)	82,668
Cash from discontinued operations:		
Cash provided by operating activities of discontinuing operations	141,888	82,689
Cash provided by operating activities from discontinued operations	—	14,950
Net increase in cash and cash equivalents from discontinuing operations	141,888	97,639
Net increase (decrease) in cash and equivalents from continuing and discontinuing operations	(425,581)	180,307
Cash and cash equivalents, beginning of period	427,433	70,883
Cash and cash equivalents, end of period	$ 1,852	$ 251,190

Sources of Liquidity

As of June 30, 2009, we had cash and cash equivalents of approximately $2.0 K, and Accounts Receivable of approximately $2.5 million. In addition, as of June 30, 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 June 30, 2009, we financed our operations from cash provided from financing activities. These activities provided net proceeds of approximately $23.3 million from our initial public offering (IPO), the private placement of approximately $66.3 million of equity securities, $1.6 million from the exercise of Stock Options and Warrants, and $27.4 million from loans evidenced by the issuance of promissory notes. In addition, since inception we have financed the acquisition of $8.2million 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 $46 K million and $216 K for the six months ended June 30, 2009 and 2008, respectively. We expect our cash capital expenditures to be approximately $100K for the six months ending December 31, 2009. The 2009 estimated capital expenditures primarily consist of additional wholesale, corporate services and other infrastructure development.

Cash used in operations was approximately $4.0 million and $2.5 million during the six months ended June 30, 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 may be required to secure letters of credit or bonds to do so.

Debt Service Requirements

At June 30, 2009, we had approximately $4.7 million of current and long-term debt. This balance relates to notes payable and our capital leases. Of this amount, the portion of debt collateralized by a security interest in accounts receivable is $4.5 million.

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 per share, 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 commenced in July 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 $6.0 million of the Company's Common Stock and Warrants. As of June 30, 2009, the Company has sold 13,426,110 shares of Common Stock for which proceeds of approximately $1.7 million were received, net of expenses of approximately $4 K. In addition, the Company issued five-year Warrants to purchase 4,242,515 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 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 to 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 to 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.

In May 2009, the FASB issued FAS No. 165, *Subsequent Events* ("FAS 165"). FAS 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The statement also sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. Furthermore, this statement identifies the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. We adopted FAS 165 during the second quarter of 2009, as required, and evaluated subsequent events through the filing date of this quarterly report.

In June 2009, the FASB issued FAS 166, improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The FASB undertook this project to address (1) practices that have developed since the issuance of FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of that statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of the transferors. FAS 166 must be applied as of January 1, 2010, the beginning of our first annual reporting period after November 15, 2009. Earlier application is prohibited. FAS 166 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective, the concept of a qualifying SPE is no longer relevant for accounting purposes. Therefore, a formerly qualifying SPE should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The disclosure provisions of FAS 166 should be applied to transfers that occurred both before and after the effective date of this statement. The adoption of FAS 166 is not currently expected to have a material effect on our financial statements.

In June 2009, the FASB, issued SFAS No. 167, *Amendments to FASB Interpretation No 46 (R)* ("FAS 167"). FAS 167 improves financial reporting by enterprises involved with variable interest entities by addressing (1) the effects on certain provisions of FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities* ("FIN 46 (R)"), as a result of eliminating the qualifying special-purpose entity ("SPE") concept in FAS No. 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140* ("FAS 166"), and (2) constituent concerns about the application of certain key provisions of FIN 46 (R), including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. FAS 167 shall be effective as of January 1, 2010, our first annual reporting period beginning after November 15, 2009. Earlier application is prohibited. The adoption of FAS 167 is not currently expected to have a material effect on our financial statements.

In June 2009, the FASB, issued SFAS No. 168, The FASB Accounting Standards Codification ™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 ("SFAS 168"). The statement confirmed that the FASB Accounting Standards Codification (the "Codification") will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force ("EITF"), and related literature. After that date, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, becomes effective for interim and annual periods ending on or after September 15, 2009. We will apply the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 is not expected to have any substantive impact on our condensed consolidated financial statements or related footnotes.

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 June 30, 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 June 30, 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.

In July 2009, the Company received a notice of a complaint filed with the SEC regarding the Company's failure to issue certain stock that was to be granted for payment of services that were to have been provided, but those services were not received. The Company has responded to the SEC, advising that the issue is one of a contractual dispute, and requested that the matter be referred to the court system.

In August 2009, Global IP Solutions, Inc. ("GIPS"), a vendor associated with the Company's discontinued operations, filed an action requesting an injunction and a temporary restraining order in the Southern District of New York, Case No. 09-CV-6981, asserting infringement of copyrighted software. The Company is no longer using the software, but is taking measures to ensure that there is not any copyright infringement by any of its former customers or distributors that may have been previously granted access to the software.

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 Recent Voluntary Delisting of our Securities from the NYSE Amex LLC

On June 18, 2009, the voluntary withdrawal of our securities from listing on the NYSE Amex Exchange became effective. The Company's Common Stock is currently trading on the Over-the-Counter Bulletin Board, (the "OTCBB") under the symbol FSNN.

Although there have been no significant negative consequences experienced since the date of delisting, delisting of our Securities from the NYSE Amex may ultimately 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.

Risks Related to Continued Losses

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 June 30, 2009, we had a working capital deficit of approximately ($11.5) million and Stockholders' deficit of approximately $(8.6) 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 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 June 30, 2009, our Executive Officers and Directors collectively controlled approximately 25.2% 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 June 30, 2009, the Company had a working capital deficit of approximately $11.5 million and an accumulated deficit of approximately $135.6 million. 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 six months ended June 30, 2009, the Company raised approximately $2.1 million 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.

Other Risks

Other risks are identified from time-to-time in our filings with the SEC, including but not limited to in our Annual Report on Form 10-K for the year ended December 31, 2008

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

(a) Unregistered Sales of Securities

From May 5, 2009 through June 29, 2009, the Company entered into subscription agreements with various accredited investors, including three (3) Directors of the Company, Marvin S. Rosen, Philip D. Turits, and E. Alan Brumberger, for the sale of an aggregate 6,327,069 shares of Common Stock, for an aggregate consideration of $823K. In addition, the Company issued five-year Warrants to purchase 1,900,030 shares of Common Stock at exercise prices equal to 120% of the closing price of the Company's Common Stock the day before the respective closing.

(b) Use of Proceeds

The proceeds of the offering(s) are or will be used primarily for general corporate purposes.

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

On August 7, 2009, the Company borrowed $105,000 from a Director, Marvin S. Rosen. The promissory note evidencing this loan provides the lender the right to demand payment at any time of all unpaid principal upon ten (10) days written notice and bears no interest. The 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 is being used primarily for general corporate purposes.

On August 7, 2009, the Company entered into a subscription agreement with one (1) accredited investor for the sale of 1,250,000 shares of Common Stock and five-year Warrants to purchase 375,376 shares of Common Stock, in consideration for $125,000. Each warrants is exercisable at $0.12 per share, which is equal to 120% of the closing price of the Company's Common Stock on the business day before the closing. The proceeds from this sale are or will be used primarily for general corporate 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.

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.

	By: /s/ **MATTHEW D. ROSEN**
	Matthew D. Rosen
August 14, 2009	Chief Executive Officer
	BY: /s/ **BARBARA HUGHES**
	Barbara Hughes
August 14, 2009	Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
31.1	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.1

CERTIFICATION

I, Matthew D. Rosen, certify that:

1. I have reviewed this report of Telecommunications International, Inc., a Delaware corporation;

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**

August 14, 2009

Matthew D. Rosen
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Barbara Hughes, certify that:

1. I have reviewed this report of Fusion Telecommunications International, Inc., a Delaware corporation;

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**

August 14, 2009

Barbara Hughes
Chief Financial Officer

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 June 30, 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.

By: /s/ **MATTHEW D. ROSEN**

August 14, 2009

Matthew D. Rosen
Chief Executive Officer

By: /s/ **BARBARA HUGHES**

August 14, 2009

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 SEC or its staff upon request.