

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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

For the transition period from _____ to _____

Commission File Number: 001-32421

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or
organization)

58-2342021

(IRS Employer Identification
No.)

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

(Address of principal executive offices)

10170

(Zip Code)

(212) 201-2400

(Registrants telephone number)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 14, 2010.

Title Of Each Class
Common Stock, \$0.01 par value

Number of Shares Outstanding
99,738,523

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Interim Balance Sheets

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ — | \$ 99,019 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$461,000 and \$539,000 in 2010 and 2009, respectively | 2,833,020 | 2,500,319 |
| Restricted cash, current portion | 168,176 | 168,176 |
| Prepaid expenses and other current assets | 172,974 | 130,647 |
| Assets held for sale | 5,784 | 6,513 |
| Current assets from discontinued operations | 25,723 | 32,283 |
| Total current assets | 3,205,678 | 2,936,956 |
| Property and equipment, net | 1,461,975 | 1,664,583 |
| Other assets: | | |
| Security deposits | 23,106 | 23,008 |
| Restricted cash, net of current portion | 248,391 | 248,391 |
| Intangible assets, net | 472,306 | 489,294 |
| Other assets | 61,362 | 62,120 |
| Total other assets | 805,164 | 822,812 |
| TOTAL ASSETS | \$ 5,472,816 | \$ 5,424,351 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Long-term debt, current portion - non-related parties | \$ 725,000 | \$ 725,000 |
| Long-term debt, current portion - related parties | 2,360,425 | 1,682,187 |
| Capital lease / equipment financing obligations, current portion | 17,418 | 14,831 |
| Escrow payable | 125,000 | 321,417 |
| Accounts payable and accrued expenses | 9,378,170 | 9,263,872 |
| Current liabilities from discontinued operations | 360,294 | 360,294 |
| Total current liabilities | 12,966,307 | 12,367,601 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion - non-related parties | — | — |
| Capital lease / equipment financing obligations, net of current portion | — | 2,587 |
| Other long-term liabilities | 327,668 | 336,815 |
| Total long-term liabilities | 327,668 | 339,402 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 7,995 shares issued and outstanding in 2010 and 2009, respectively | 80 | 80 |
| Common stock, \$0.01 par value, 225,000,000 shares authorized, which 99,738,523 and 92,543,932 shares issued and outstanding in 2010 and 2009, respectively | 997,386 | 925,440 |
| Capital in excess of par value | 131,917,882 | 130,984,766 |
| Accumulated deficit | (140,736,507) | (139,192,939) |
| Total stockholders' deficit | (7,821,159) | (7,282,653) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 5,472,816 | \$ 5,424,351 |

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Operations
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------------------|
| | 2010 | 2009 |
| Revenues | \$ 9,588,632 | \$ 9,002,301 |
| Operating expenses: | | |
| Cost of revenues, exclusive of depreciation and amortization, shown separately below | 8,663,769 | 8,467,891 |
| Depreciation and amortization | 231,875 | 489,471 |
| Selling, general and administrative expenses (includes approximately \$68,227 and \$37,508 for the three months ended March 31, 2010 and March 31, 2009, respectively, of stock—based compensation) | 2,196,312 | 2,470,280 |
| Advertising and marketing | 3,771 | 7,496 |
| Total operating expenses | <u>11,095,727</u> | <u>11,435,138</u> |
| Operating loss | \$ <u>(1,507,095)</u> | \$ <u>(2,432,837)</u> |
| Other income (expenses): | | |
| Interest income | \$ 124 | \$ 159 |
| Interest expense | (49,591) | (95,940) |
| Gain on settlements of debt | 9,500 | |
| Other | <u>4,867</u> | <u>2,214</u> |
| Total other income (expenses) | <u>(35,100)</u> | <u>(93,567)</u> |
| Loss from continuing operations | (1,542,195) | (2,526,404) |
| Discontinued operations: | | |
| Loss from discontinued operations | <u>(1,373)</u> | <u>(479,811)</u> |
| Net loss | \$ <u>(1,543,568)</u> | \$ <u>(3,006,215)</u> |
| Loss applicable to common stockholders: | | |
| Loss from continuing operations | \$ (1,542,195) | \$ (2,526,404) |
| Preferred stock dividends in arrears | <u>(157,710)</u> | <u>(157,710)</u> |
| Net loss from continuing operations applicable to common stockholders: | (1,699,905) | (2,684,114) |
| Loss from discontinued operations | <u>(1,373)</u> | <u>(479,811)</u> |
| Net loss applicable to common stockholders | \$ <u>(1,701,278)</u> | \$ <u>(3,163,925)</u> |
| Basic and diluted net loss per common share: | | |
| Loss from continuing operations | \$ (0.02) | \$ (0.06) |
| Loss from discontinued operations | <u>(0.00)</u> | <u>(0.01)</u> |
| Net loss applicable to common stockholders | \$ <u>(0.02)</u> | \$ <u>(0.07)</u> |
| Weighted average common shares outstanding: | | |
| Basic and diluted | <u>97,046,963</u> | <u>48,005,246</u> |

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2010 | 2009 |
| | <u>(unaudited)</u> | <u>(unaudited)</u> |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,543,568) | \$ (3,006,215) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on impairment / discontinued operations | — | 160,455 |
| Depreciation and amortization | 231,875 | 489,470 |
| Bad debt expense | (67,063) | 125,938 |
| Stock—based compensation | 63,041 | 34,945 |
| Gain on extinguishment of debt | (9,500) | — |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities: | | |
| Accounts receivable, net | (265,638) | 1,368,676 |
| Prepaid expenses and other current assets | (42,328) | (105,066) |
| Other assets | 758 | 54,647 |
| Accounts payable and accrued expenses | 141,631 | (604,956) |
| Other long—term liabilities | (9,147) | (46,747) |
| Net cash used in operating activities | <u>(1,499,939)</u> | <u>(1,528,853)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (9,164) | (9,184) |
| (Payment) for security deposits | (98) | (801) |
| Returns of other intangible assets | — | 2,639 |
| Net cash used in investing activities | <u>(9,262)</u> | <u>(7,346)</u> |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock, net | 455,622 | 688,948 |
| Proceeds from the sale of common stock, not yet issued | 50,000 | — |
| Proceeds from notes payable — related parties | 798,000 | 660,000 |
| Proceeds from notes payable — non-related parties | 100,000 | — |
| Payments of long—term debt and capital lease / equipment financing obligations | — | (7,952) |
| Repayments of notes payable — related parties | — | — |
| Repayments of notes payable — non-related parties | — | — |
| Net cash provided by financing activities | <u>1,403,622</u> | <u>1,320,996</u> |
| Net increase (decrease) in cash and cash equivalents from continuing operations | <u>(235,057)</u> | <u>(215,203)</u> |
| Cash flows from discontinued operations: | | |
| Cash provided by operating activities of discontinued operations | 6,560 | 29,434 |
| Net increase (decrease) in cash and cash equivalents from discontinuing operations | <u>6,560</u> | <u>29,434</u> |
| Net increase (decrease) in cash and cash equivalents from continuing and discontinuing operations: | <u>(105,579)</u> | <u>(187,769)</u> |
| Cash and cash equivalents, beginning of period | 99,019 | 427,433 |
| Cash and cash equivalents, end of period | <u>\$ —</u> | <u>\$ 241,664</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period of interest | 834 | 32,437 |
| Supplemental schedule of non—cash investing and financing activities: | | |
| Acquisition of capital lease / equipment financing obligations | \$ — | \$ 24,000 |
| Conversion of notes payable — related parties to common stock | \$ 220,000 | \$ — |
| Conversion of interest payable —related parties to common stock | \$ 19,982 | \$ — |
| Transfer from escrow payable to common stock | \$ 321,417 | \$ — |
| 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 |
| Transfer from equity to escrow payable—shares to vendor, not yet issued | \$ 75,000 | \$ — |

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, 2009 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. GAAP"). In the opinion of the Company's management, all adjustments (consisting of normal recurring accruals) considered necessary for fair condensed consolidated interim financial statements presentation have been made. The results of operations for an interim period may not give true indication of the results for the entire year.

During the three-months ended March 31, 2010 and 2009, 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 accounting and reporting requirements with respect to accounting for income taxes, which require 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. In accordance with GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. The Company is subject to income tax examinations by major taxing authorities for all tax years since inception and may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. During the three months period ended March 31, 2010, the Company recognized no adjustments for uncertain tax positions.

Earnings (loss) per share

The Company complies with the accounting and disclosure requirements regarding earnings per share. 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 4,698,173 and 5,178,804 shares of the Company's common stock as of March 31, 2010 and 2009, respectively, were not included in the computation of diluted earnings (loss) per share because the exercise of the stock options would be anti-dilutive.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Unexercised warrants to purchase 31,102,390 and 21,463,043 shares of the Company's common stock as of March 31, 2010 and 2009, respectively, were not included in the computation of diluted earnings (loss) per share because the exercise of the warrants would be anti-dilutive. Net loss per common share calculation includes a provision for preferred stock dividend in the amount of approximately \$158,000 and \$158,000 as of March 31, 2010 and 2009, respectively. However, no cash dividend had been declared by the Company's Board of Directors as of March 31, 2010.

Discontinued operations

The Company classifies a business component that either has been disposed of or is classified as held for sale as a discontinued operation if the cash flow of the component has been or will be eliminated from ongoing operations and the Company will no longer have any significant continuing involvement in the component. The results of operations, of the discontinued component through the date of disposition, including any gains or losses on disposition, are aggregated and presented on one line on the Condensed Consolidated Interim Statement of Operations. Amounts presented for prior years are reclassified to reflect their classification as discontinued operations. See [Note 4](#) for additional information regarding discontinued operations.

Stock-based compensation

The Company accounts for stock-based compensation by recognizing the fair value of compensation cost for all stock awards 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 the grant using the Black-Scholes option-pricing model.

Stock-based compensation expense recognized in the Condensed Consolidated Interim Statements of Operations for the three- -months ended March 31, 2010, and 2009, includes compensation expense for stock-based payment awards granted prior to, but not yet vested, as of March 31, 2010, based on the grant date fair value estimated. As stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three-months ended March 31, 2010 and 2009, is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. When estimating forfeitures, the Company considered termination behaviors as well as trends for actual option forfeiture.

The impact on the Company's results of operations of recording stock-based compensation expense related to employees for the three-month ended March 31, 2010 and 2009 was approximately \$68,000 and \$38,000 respectively, which is included in selling, general, and administrative expenses in the Condensed Consolidated Interim Statements of Operations.

The following table summarizes the stock option activity for the three-months ended March 31, 2010:

| (unaudited) | | | |
|--------------------------------|--------------------------|--|------|
| Activity | Number of Options | Weighted Average Exercise Price | |
| Outstanding at January 1, 2010 | 4,906,774 | \$ | 1.26 |
| Granted | 45,500 | \$ | 0.13 |
| Cancelled or expired | (254,101) | \$ | 0.58 |
| Outstanding at March 31, 2010 | 4,698,173 | \$ | 1.28 |
| Exercisable at March 31, 2010 | 3,365,845 | \$ | 1.71 |

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

| | (unaudited) | |
|---------------------------------|-----------------------------|----------|
| | Three-Months Ended March 31 | |
| | 2010 | 2009 |
| Dividend yield | 0.00 % | 0.00 % |
| Stock volatility | 81.93 % | 129.55 % |
| Average Risk-free interest rate | 2.80 % | 2.03 % |
| Average option term (years) | 4 | 4 |

As of March 31, 2010, there was approximately \$119,268 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 1.93 years.

Fair value of financial instruments

The carrying amounts of the Company's assets and liabilities approximate the fair value presented in the accompanying Condensed Consolidated Interim 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 United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. Going Concern.

At March 31, 2010, the Company had a working capital deficit of approximately \$(9.7) million and an accumulated deficit of approximately \$(140.7) 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 three-months ended March 31, 2010, the Company raised approximately \$0.5 million net of expenses from sale of its securities. The Company cannot provide any assurances if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company's ability to continue operations as a going concern. No adjustment has been made in the condensed consolidated interim financial statements to the amounts and classification of assets and liabilities, which could result, should the Company be unable to continue as a going concern.

3. Prepaid Expenses and Other Current Assets.

Prepaid expenses and other current assets consist of the following at March 31, 2010 and December 31, 2009:

| | March 31, 2010 | December 31, 2009 |
|------------------|-------------------|----------------------|
| | (unaudited) | |
| Prepaid expenses | \$ 169,974 | \$ 126,061 |
| Inventory | — | 1,586 |
| Notes receivable | 3,000 | 3,000 |
| Total | \$ 172,974 | \$ 130,647 |

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 services segments, the Company determined to eliminate the consumer services 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 (3) international offices, reported under its Dubai subsidiary, were closed, and twenty-six employees and eleven consultants were terminated. In accordance with requirements under U.S. GAAP for impairment or disposal of long-lived assets, the Company has classified the operating results of its consumer services segment as a discontinued operation in the accompanying condensed consolidated interim financial statements. The March 31, 2010, and 2009 condensed consolidated interim financial statements have been adjusted for these discontinued operations. These discontinued operations affect only the Company's consumer services segment. The following table represents the assets and liabilities of the discontinued operations as of March 31, 2010 and December 31, 2009:

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| | (unaudited) | |
| Property and equipment, net | \$ 25,723 | \$ 32,283 |
| Total current assets reclassified to discontinued operations | <u>\$ 25,723</u> | <u>\$ 32,283</u> |
| Capital lease obligations, current portion | \$ 99,517 | \$ 99,517 |
| Accounts payable and accrued expenses | <u>260,777</u> | <u>260,777</u> |
| Total current liabilities reclassified to discontinued operations | <u>\$ 360,294</u> | <u>\$ 360,294</u> |

The following is a summary of the operating results of the discontinued operations for the three-months ended March 31, 2010 and 2009:

| | Three Months Ended March 31 | |
|--------------------------------------|--|---------------------|
| | 2010 | 2009 |
| | (unaudited) | |
| Revenues | \$ — | \$ 283,319 |
| Cost of revenues | — | (232,845) |
| Depreciation and amortization | (6,560) | (9,278) |
| Loss on impairment of assets | — | (160,352) |
| Selling, general, and administrative | 5,186 | (357,910) |
| Advertising and marketing | — | (2,749) |
| Other income (expense) | — | 4 |
| Net income (loss) | <u>\$ (1,373)</u> | <u>\$ (479,811)</u> |

5. Intangible Assets

Identifiable intangible assets, as of March 31, 2010 (unaudited), are comprised of:

| | Trademarks | Intellectual Property | Totals |
|--------------------------------|-------------------|----------------------------------|-------------------|
| Balance as of January 01, 2010 | \$ 402,897 | \$ 86,397 | \$ 489,294 |
| Current year amortization | (16,988) | — | (16,988) |
| Current year impairment | — | — | — |
| Balance as of March 31, 2010 | <u>\$ 385,909</u> | <u>\$ 86,397</u> | <u>\$ 472,306</u> |

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Identifiable intangible assets, as of March 31, 2009 (audited), are comprised of:

| | <u>Trademarks</u> | <u>Intellectual Property</u> | <u>Totals</u> |
|-----------------------------------|-------------------|----------------------------------|-------------------|
| Balance as of January 01, 2009 | \$ 721,871 | \$ 89,037 | \$ 810,908 |
| Current year amortization | (495) | — | (495) |
| Current year impairment | — | (2,640) | (2,640) |
| Balance as of March 31, 2009 | <u>\$ 721,376</u> | <u>\$ 86,397</u> | <u>\$ 807,773</u> |

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at March 31, 2010 and December 31, 2009:

| | <u>March 31, 2010</u> | <u>December 31, 2009</u> |
|------------------------------|-----------------------|--------------------------|
| | <u>(unaudited)</u> | |
| Trade accounts payable | \$ 8,050,667 | \$ 7,784,952 |
| Accrued expenses | 520,858 | 718,212 |
| Accrued payroll and vacation | 103,491 | 217,984 |
| Cost accrual | 71,478 | 27,898 |
| Interest payable | 225,835 | 199,939 |
| Deferred revenue | 195,204 | 121,122 |
| Other | 210,637 | 193,765 |
| | <u>\$ 9,378,170</u> | <u>\$ 9,263,872</u> |

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

At March 31, 2010 and December 31, 2009, components of long-term debt and capital lease/equipment financing obligations of the Company are comprised of the following:

| | <u>March 31, 2010</u> | <u>December 31, 2009</u> |
|--|-----------------------|--------------------------|
| | <u>(unaudited)</u> | |
| Promissory notes payable —related parties | \$ 2,360,425 | \$ 1,682,187 |
| Promissory notes payable— non—related parties | 725,000 | 725,000 |
| Capital lease / equipment financing obligations | 17,418 | 17,418 |
| Total long—term debt and capital lease / equipment financing obligations | 3,102,843 | 2,424,605 |
| Less current portion capital lease / equipment financing obligations | (17,418) | (14,831) |
| Less current portion - related parties | \$ (2,360,425) | \$ (1,682,187) |
| Less current portion - nonrelated parties | (725,000) | (725,000) |
| | <u>\$ —</u> | <u>\$ 2,587</u> |

Promissory notes payable - non-related parties

During February 2004, the Company entered into a settlement agreement with a vendor for \$600,000. In the same month, the Company paid \$450,000 under the agreement and agreed to make 12 monthly payments for the remaining \$150,000. The promissory note has not been repaid as of March 31, 2010, as the other party to the settlement agreement has not complied with the terms of the agreement.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

During 2008, the Company borrowed an aggregate of \$375,000 from several stockholders. The loans are evidenced by two (2) promissory notes, which mature on various dates through April of 2010 and bear interest at the rate of 10 percent (10%) per annum. In the event that either 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 on that note will become payable in full upon ten (10) days notice from the lender. The Company did not pay these promissory notes by their maturity dates; however, neither lender has made a demand for payment. Each note also grants the lender a collateralized security interest in the Company's accounts receivable. At March 31, 2010, the notes remain outstanding and are now payable on demand.

On September 30, 2009, the Company and a lender agreed to amend a promissory note (the "Amended Note") originally issued May 27, 2008 evidencing \$200,000 borrowed from the lender, which Amended Note extends the maturity date of the note to December 31, 2009. On January 4, 2010, the lender converted \$100,000 of this note into 769,231 shares of common stock and warrants to purchase 153,847 shares of common stock. The warrants are exercisable for five-years at 120% of the closing price of the Company's common stock the business day before closing. On January 5, 2010, the lender agreed to extend the maturity date of the \$100,000 balance of the loan to April 5, 2010 and increase the interest rate to 12 percent (12%) per annum. In the event this note is not repaid by the maturity date, the note will automatically convert to a demand note, and the principal sum and all accrued interest will become payable in full upon ten (10) days notice from the lender. The Amended Note also grants the lender a collateralized security interest, *pari passu* with other lenders, in the Company's account(s) receivable. At March 31, 2010, this note remains outstanding and is now payable on demand.

On March 30, 2010, the Company borrowed \$100,000 from a non-related party. This loan is evidenced by a promissory note, which matures on April 14, 2010 and bears interest at the rate of ten percent (10%) per annum. In the event that the note is not repaid by the maturity date, it will automatically convert to a demand note, and the principal sum and all accrued interest on the note will become payable in full upon ten (10) days notice from the lender. This note also grants the lender a collateralized security interest, *pari passu* with other lenders, in the Company's accounts receivable. As of March 31, 2010, this note remains outstanding and is now payable on demand.

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 is 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. Of the \$142,157 balance remaining on February 4, 2010 Marvin Rosen converted \$55,552 of indebtedness that was evidenced by one (1) of the promissory notes into 462,933 shares of common stock and 92,587 warrants. The warrants are exercisable for five-years at 120% of the closing price of the Company's common stock the business day before closing. As of March 31, 2010, approximately \$86,605 remains 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. Of the \$275,000 balance remaining on February 4, 2010, Marvin Rosen converted \$64,448 of indebtedness evidenced by one (1) of the promissory notes into 537,067 shares of common stock and warrants to purchase 107,413 shares of common stock. The warrants are exercisable for five - years at 120% of the closing price of the Company's common stock the business day before closing. At March 31, 2010, approximately \$210,552 remains due under these promissory notes. 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 in the Company's accounts receivable.

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During 2009, the Company borrowed an additional \$1,700,130 from these two Directors, evidenced by twenty (20) promissory notes, which mature at various dates throughout 2009 and bear interest at rates ranging from three percent (3%) 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 become 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. On August 31, 2009, the Company and Marvin S. Rosen agreed to amend and restate two promissory notes originally issued August 7, 2009 (evidencing \$105,000) and August 18, 2009 (evidencing \$85,267.81), respectively (the "Amended Notes"). Each of the Amended Notes (a) is payable on demand, (b) bears interest on the unpaid principal amount at the rate of 8% per annum and (c) grants the lender a collateralized security interest, *pari passu* with other lenders, in the Company's accounts receivable. At March 31, 2010, \$1,140,268 remains outstanding under these promissory notes.

On May 21, 2009, the Company borrowed \$125,000 from Marose, LLC, of which Marvin Rosen, Chairman of the Board of Directors, is a member. This loan is evidenced by a promissory note, which matures on July 20, 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, the 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. On July 20, 2009, the note became a demand note and the Company has not received a demand for payment. As of March 31, 2010, this note remains outstanding.

During 2010, the Company borrowed an aggregate of \$798,000 from a director, Marvin Rosen. These loans are evidenced by thirteen (13) promissory notes, each bearing interest at the rate of three and a quarter percent (3.25%) per annum with maturities extending through April 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. As of March 31, 2010, \$798,000 remains due under these promissory notes and the Company has not received a demand for payment.

Capital lease / equipment financing obligations

Future aggregate principal payments for the Company's capital lease/equipment financing obligations as of March 31, 2010 (unaudited), are as follows:

| | March 31, 2010 |
|-----------------------------------|---------------------------|
| | (unaudited) |
| Total minimum payments | \$ 19,794 |
| Less amount representing interest | (2,376) |
| Present value of minimum payments | 17,418 |
| Less current portion | (17,418) |
| | \$ — |

8. Equity Transactions

In March 2010, the Company entered into a letter agreement with a company that will act as a placement agent and financial advisor to arrange the sale of equity securities on behalf of the Company. The agreement will continue until the proposed sale of those securities is completed, or upon thirty (30) days prior written notice after expiration of one hundred twenty (120) days from the initial effective date of the agreement, or upon execution of another agreement that replaces this agreement. The Company has agreed to pay the Placement Agent a commission equal to 8% of the gross proceeds of the Offering, a finance fee equal to 2% of the gross proceeds of the Offering, and a non-accountable expense allowance equal to 2% of the gross proceeds, as well as warrants to purchase a number of shares of the Company's common stock as is equal to 10% of the number of units sold in the Offering.

Common stock

On January 4, 2010, the Company entered into a subscription agreement with an accredited investor. Under this subscription agreement the Company agreed to convert \$100,000 evidenced by a promissory note originally issued, May 27, 2008 into 769,231 shares of the Company's common stock and a five-year warrant to purchase an additional 153,847 shares of the Company's common stock, with an exercise price of \$0.16 per share, which is equal to 120% of the closing price of the Company's common stock on the business day before the closing.

From January 1, 2010 through March 18, 2010, the Company entered into an additional twelve (12) subscription agreements with eleven (11) accredited investors, including three (3) who are Directors of the Company. Under these subscription agreements the Company issued an aggregate of 6,842,027 shares of common stock and five-year warrants to purchase 2,118,411 shares of common stock in consideration of \$917,021, which consisted of cash net of expenses totaling \$455,622, a \$321,417 transfer from escrow payable, and a \$139,982 conversion of debt to equity evidenced by promissory notes originally issued to directors Marvin Rosen and Philip Turits. The warrants have exercise prices ranging between \$0.14 and \$0.18, which is equal to 120% of the respective closing price of the Company's common stock on the business day before closing.

On February 17, 2010 the Company's formerly publicly-traded Redeemable common stock purchase warrants expired and the symbol FSNNW was deleted from the OTCBB™.

On March 15, 2010, the Company filed a Certificate of Amendment to its Certificate of Incorporation (a) increasing the total number of shares of capital stock the Company shall have the authority to issue from 185,000,000 shares to 235,000,000 shares, of which 225,000,000 shares shall be common stock, par value \$0.01 per share, and 10,000,000 shares shall be preferred stock, par value \$0.01 per share.

As of March 31, 2010, the Company has authorized 225,000,000 shares of common stock. As of March 31, 2010 there were 99,738,523 shares of common stock issued and outstanding.

The Company previously disclosed that it had issued common stock for \$75,000 to a vendor for the settlement of a debt. However, inasmuch as the vendor failed to perform its obligations under the settlement agreement, the Company had not yet issued the shares, resulting in a transfer from equity to escrow payable in the amount of \$75,000, for the period ended March 31, 2010. As of the date of this filing, the Company continues to reserve the shares for issuance in the event that a settlement agreement, other agreement, or determination eventually requires the issuance of the shares.

Preferred stock

As of March 31, 2010, the Company has authorized 10,000,000 shares of preferred stock. As of September 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 March 31, 2010, the Board of Directors has declared no dividends.

9. Adoption of New Accounting Policies

In January 2010, the FASB issued an accounting standards update on the accounting and reporting for decreases in ownership of a subsidiary. The new accounting guidance clarified and broadened the scope for partial sales and deconsolidation events to include groups of assets that are businesses or are nonprofit activities and transfers of a business to a joint venture or to an equity method investee even when the transfer is in exchange for an interest in those entities. The new accounting guidance also requires additional disclosures on the deconsolidation of a subsidiary or de-recognition of a group of assets within its scope. The accounting guidance was effective upon issuance. The Company adopted the new guidance in this report and it did not have an impact on the company's consolidated financial position or results of operations.

In February 2010, the FASB issued amended guidance on subsequent events. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the company adopted these new requirements for the quarter ended March 31, 2010.

The Company does not believe that any other recently issued, but not yet effective, accounting pronouncements if currently adopted would have a material effect on the accompanying condensed consolidated interim financial statements.

10. Commitments and Contingencies

Legal Matters

On July 30, 2008, a vendor that provides management consulting and software systems services filed a complaint in the Supreme Court of the State of New York (Software Synergy, Inc., v Fusion Telecommunications International, Inc., Index No. 602223/08) seeking damages in the amount of \$624,594 plus \$155,787 in Prejudgment interest and costs, allegedly due to the plaintiff under terms of a Professional Services Letter Agreement and Master Software License Agreement. This complaint asserts claims for relief against the Company for Breach of Contract, failure to pay to plaintiff moneys allegedly due under the terms of a Professional Services Letter Agreement (the "PSLA"), violation of the terms of a Master Software License Agreement (the "MSLA"), and Prejudgment interests and costs. The Company vigorously refutes the charges. On September 17, 2008, the Company filed a counterclaim against the vendor alleging the plaintiff materially breached its obligations to the Company under the PSLA and MSLA and is liable to the Company for damage, including full repayment of the amounts which the Company paid to the plaintiff for its failed development effort. At a status conference on July 16, 2009, the judge established a preliminary schedule for the case. Since that time, the parties have served and responded to document requests and interrogatories. Depositions have not yet been scheduled. The parties have on several occasions discussed settlement options, but as of this date no settlement agreement has been reached. The Company cannot accurately predict the likelihood of a favorable or unfavorable outcome or quantify the amount or range of potential financial impact, if any. Accordingly, no adjustment has been made in the Company's accompanying consolidated financial statements because of this claim.

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, and has taken 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. In addition, on October 23, 2009, the Company filed its Answer and Counterclaim in this matter, refuting the GIPS allegations, seeking a refund of advanced royalties paid to GIPS which were never fully utilized, and seeking damages related to defects in the software that directly impacted the Company's efforts to market its products and services that included the GIPS software. The parties have served and responded to document requests, and have scheduled but not yet conducted depositions. The parties are currently discussing settlement, but as of this date no settlement agreement has been reached. As the Company cannot accurately predict the likelihood of a favorable or unfavorable outcome or quantify the amount or range of any potential financial impact, no adjustment has been made in the Company's accompanying consolidated financial statements because of this claim.

On or about September 10, 2009, a landlord over premises leased by the Company commenced a proceeding in the New York City Civil Court, County of New York (Index No. 084795/09), in which the landlord sought to recover against the Company unpaid rent and related charges due under a lease agreement between the landlord and the Company, and to evict the Company from the premises. By Stipulation of Settlement dated October 31, 2009, the landlord and the Company agreed that the landlord would be entitled to a judgment in the amount of approximately \$246,000 and a warrant of eviction, but that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the Stipulation. By a First Amendment to the Stipulation of Settlement dated January 15, 2010, the parties agreed to modify the payment schedule in the original stipulation. The amended stipulation also provided that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the payment schedule in the amended stipulation. The Company has executed the stipulation of settlement and delivered the signed stipulation to the landlord; however, the landlord has not yet returned a fully signed copy of the stipulation to the Company. Although the settlement will not become effective unless and until it is executed by the landlord, in view of the amicable historic relationship with the landlord, we anticipate that this matter will be resolved as indicated above. The final two payments under the stipulation, in the amount of \$96,039, due on March 5, 2010, and April 5, 2010, have not yet been paid by the Company. Although the Company is in default, the landlord is cooperating with the Company to allow the additional time needed by the Company to make the final payments and the Company believes that the matter will ultimately be resolved.

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 the Company's operations or financial condition.

Restricted Cash

As of March 31, 2010 and December 31, 2009, 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 under the Company's non-cancelable operating leases for office facilities and to secure a license to do business.

11. Segment Information

The Company reports segment information in accordance with the requirements under U.S. GAAP, which requires the disclosure 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 – corporate services and carrier services. These segments are organized by the products and services that are sold and the customers that are served. The Company measures and evaluates its reportable segments based on revenues and cost of revenues. Segment income excludes unallocated Company 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. The Company's segments and their principal activities are noted below:

Corporate Services

The Company offers a full suite of corporate communications services, primarily utilizing Voice over Internet Protocol (VoIP) technology. These services are targeted to small, medium and large businesses with single or multiple locations worldwide and incorporate all required hardware, thus providing the customer with everything required to implement a complete communications service solution.

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The Company's corporate services include Hosted IP-PBX, SIP trunking, Internet access, conference calling, fax services, private line networks, and data center hosting (co-location) services. These services are combined as necessary to create the precise communications package required by each customer. On average, we believe that our corporate services save the customer approximately 20%, when compared to that customer's previous services.

We have contracts with all of our corporate customers. Our contracts are typically for a one, two, or three-year term, and have early cancellation penalties. As the majority of our contracts are for a three-year term, the current average term of all contracts signed by our customers is approximately 2.7 years.

Carrier Services

The Company's carrier services include voice termination via both VoIP and traditional Time Division Multiplexing ("TDM") or "circuit-switched" technology. All voice termination services utilize our proprietary least cost routing ("LCR") technology to assure that all calls are terminated at the lowest possible cost and to maximize profit margins. The Company also provides co-location services to other communications service providers, enabling them to co-locate their equipment within our switching facility.

The Company sells its carrier services to other communications service providers throughout the world, including U.S. based carriers wishing to terminate calls to international destinations as well as foreign carriers wishing to terminate calls in the U.S. and throughout the world. The Company also purchases domestic and international termination services from carriers. We currently have over 250 carrier customers and vendors.

We have contracts with all of our carrier customers. These contracts typically have a one-year renewable term and have no penalty for early termination. Most contracts have no minimum monthly traffic commitment.

Operating segment information for the three- months ended March 31, 2010 and 2009, is summarized as follows:

Three Months Ended March 31, 2010 (unaudited)

| | Carrier Services | Corporate Services and Other | Corporate and Unallocated | Consolidated |
|---|-----------------------------|---|--------------------------------------|---------------------|
| Revenues | \$ 9,207,231 | \$ 381,401 | \$ — | \$ 9,588,632 |
| Cost of revenues (exclusive of depreciation and amortization) | (8,436,828) | (226,941) | — | (8,663,769) |
| Depreciation and amortization | (224,854) | (7,021) | — | (231,875) |
| Loss on impairment of long — lived assets | — | — | — | — |
| Selling, general, and administrative expenses | (1,461,249) | (735,063) | — | (2,196,312) |
| Advertising and marketing | — | (3,771) | — | (3,771) |
| Other income (expenses) | (24,219) | (10,881) | — | (35,100) |
| Total loss from continuing operations | (939,919) | (602,276) | — | (1,542,195) |
| Loss from discontinued operations | — | (1,373) | — | (1,373) |
| Net loss | \$ (939,919) | \$ (603,649) | \$ — | \$ (1,543,568) |
| Total assets | \$ 4,305,978 | \$ 747,809 | \$ 419,029 | \$ 5,472,816 |
| Capital expenditures | \$ — | \$ — | \$ 9,164 | \$ 9,164 |

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Three Months Ended March 31, 2009

| | Carrier Services | Corporate Services and Other | Corporate and Unallocated | Consolidated |
|---|---------------------|---------------------------------|------------------------------|----------------|
| Revenues | \$ 8,849,260 | \$ 153,041 | \$ — | \$ 9,002,301 |
| Cost of revenues (exclusive of depreciation and amortization) | (8,379,861) | (88,030) | — | (8,467,891) |
| Depreciation and amortization | (264,518) | (224,953) | — | (489,471) |
| Loss on impairment of long — lived assets | — | — | — | — |
| Selling, general, and administrative expenses | (1,278,046) | (1,192,234) | — | (2,470,280) |
| Advertising and marketing | (1,789) | (5,707) | — | (7,496) |
| Other income (expenses) | (43,041) | (50,526) | — | (93,567) |
| Total loss from continuing operations | (1,117,995) | (1,408,409) | — | (2,526,404) |
| Loss from discontinued operations | — | (479,811) | — | (479,811) |
| Net loss | \$ (1,117,995) | \$ (1,888,220) | \$ — | \$ (3,006,215) |
| Total assets | \$ 4,410,006 | \$ 1,803,431 | \$ 945,185 | \$ 7,158,622 |
| Capital expenditures | \$ 1,230 | \$ — | \$ 7,954 | \$ 9,184 |

12. Subsequent Events.

During April 2010, the Company borrowed an aggregate of \$350,000 from an individual that is also a Director of the Company under four (4) promissory notes. The loans bear interest on the unpaid principal amount of the notes from the date the note is issued until the outstanding principal amount of the notes are paid in full, at the rate of 3.25% per annum, and the principal sum and all accrued interest are payable in full upon ten (10) days notice from the lender. The notes also grant the lender a collateralized security interest, pari passu with other lenders, in the Company's account(s) receivable.

The proceeds are being used for general working capital purposes.

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

Forward—Looking Statements

Certain statements and the discussion contained herein regarding the Company's business and operations may include "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 the Company's 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 the Company's 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.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------------|
| | 2010 | 2009 |
| | (unaudited) | |
| Revenues | \$ 9,588,632 | \$ 9,002,301 |
| Operating expenses: | | |
| Cost of revenues, exclusive of depreciation and amortization, shown separately below | 8,663,769 | 8,467,891 |
| Depreciation and amortization | 231,875 | 489,471 |
| Loss on impairment of long-lived assets | — | — |
| Selling, general, and administrative expenses (including approximately \$68,227 and \$37,508 for the three months ended March 31, 2010 and March 31, 2009 respectively, of stock-based compensation) | 2,196,312 | 2,470,280 |
| Advertising and marketing | 3,771 | 7,496 |
| Total operating expenses | <u>11,095,727</u> | <u>11,435,138</u> |
| Operating loss | <u>(1,507,095)</u> | <u>(2,432,837)</u> |
| Other income (expenses): | | |
| Interest Income | 124 | 159 |
| Interest expense | (49,591) | (95,940) |
| Gain on settlements of debt | 9,500 | — |
| Other | 4,867 | 2,214 |
| Total other income (expenses) | <u>(35,100)</u> | <u>(93,567)</u> |
| Income (loss) from continued operations | <u>(1,542,195)</u> | <u>(2,526,404)</u> |
| Discontinued operations: | | |
| Income (loss) from discontinued operations | <u>(1,373)</u> | <u>(479,811)</u> |
| Net loss | <u>\$ (1,543,568)</u> | <u>\$ (3,006,215)</u> |

| | Three Months Ended March 31, | | | |
|---|---------------------------------|---|--------|---|
| | 2010 | | 2009 | |
| | (unaudited) | | | |
| Revenues | 100.0 | % | 100.0 | % |
| Operating expenses: | | | | |
| Cost of revenues, exclusive of depreciation and amortization, shown separately below | 90.4 | % | 94.1 | % |
| Depreciation and amortization | 2.4 | % | 5.4 | % |
| Loss on impairment of long-lived assets | 0.0 | % | 0.0 | % |
| Selling, general and administrative expenses (including approximately \$68,227 and \$37,508 for the three months ended March 31, 2010 and March 31, 2009 respectively, of stock-based compensation) | 22.9 | % | 27.4 | % |
| Advertising and marketing | 0.0 | % | 0.1 | % |
| Total operating expenses | 115.7 | % | 127.0 | % |
| Operating loss | (15.7) | % | (27.0) | % |
| Other income (expenses): | | | | |
| Interest Income | 0.0 | % | 0.0 | % |
| Interest expense | (0.5) | % | (1.1) | % |
| Gain on settlements of debt | 0.1 | % | 0.0 | % |
| Other | 0.1 | % | 0.0 | % |
| Total other income (expenses) | (0.3) | % | (1.1) | % |
| Income (loss) from continued operations | (16.0) | % | (28.1) | % |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations | 0.0 | % | (5.3) | % |
| Net loss | (16.0) | % | (33.4) | % |

Revenues

Historically, we have generated the majority of our revenues from voice traffic sold to other carriers, with a strong focus in recent years on VoIP termination to emerging markets. We have focused on growing our existing customer base, which was primarily U.S. based, through the addition of a broad range of new international customers. We have also focused on expanding the Company's vendor base through the addition of direct VoIP terminating arrangements to many new countries, including many emerging markets. Although we believe that the carrier business segment continues to be of significant value to our long term strategy, ongoing competitive and pricing pressures have caused us to increase our focus on the higher margin corporate business segment and to expand our efforts to market to small and mid-sized corporations as well as large enterprises using both or direct and partner distribution channels.

While our corporate business segment is still a relatively small portion of our revenue base, we expect to continue to increase our emphasis on this area and increase the percentage of the Company's total revenues contributed by the corporate business segment. We believe that this will complement the Company's carrier business segment by providing higher margins and a more stable customer base.

We manage our revenues by business segment and customer. We manage our costs by provider (vendor). We track revenues by business segment, as the Company's segments have different customer billing and payment terms and utilize different billing systems. We track total revenue at the customer level because our sales force manages revenue generation at the customer level, and because invoice charges are billed and collected at the customer level. We also track revenues and costs by product to manage product profitability.

We manage our business segments based on gross margin, which is defined as net revenues less the cost of revenues, rather than on net profitability, due to the fact that the Company's infrastructure is built to support all business segments and products. This applies both to the capital investments made (such as switching and transmission equipment), and to Selling, General and Administrative expenses. The majority of the Company's operations, engineering, information systems, and finance personnel support both business segments and all products and services. 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 business segments.

Operating Expenses

The Company's operating expenses are categorized as cost of revenues, depreciation, and amortization, loss on impairment, selling, general and administrative expenses, and advertising and marketing.

Cost of revenues includes costs incurred in the operation of the Company's leased network facilities, as well as the purchase of voice termination, Internet access, private line, and other services from telecommunications carriers and Internet Service Providers. We continue to work to lower the variable component of the cost of revenues through the use of least cost routing, and through continual negotiation of both usage-based costs and fixed costs with our many domestic and international service providers.

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

Selling, general, and administrative expenses include salaries and benefits, commissions, occupancy costs, sales, professional fees and other administrative expenses.

Advertising and marketing expense includes cost for promotional materials for the marketing of the Company's corporate products and services, as well as for public relations.

Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009

Revenues

Revenues for Corporate Services and Other increased \$217 thousand or 126.9%, to \$388 thousand during the three months ended March 31, 2010 from \$171 thousand during the three months ended March 31, 2009. This increase was primarily caused by an increase in the Company's corporate services business due to continued sales efforts to grow the customer base.

Cost of Revenues

Consolidated cost of revenues was \$8.7 million during the three months ended March 31, 2010, compared to \$8.5 million during the three months ended March 31, 2009, a decrease of \$0.2 million, or 2.4%. Cost of revenues for Carrier Services was \$8.4 million during the three months ended March 31, 2010, compared to \$8.3 million during the three months ended March 31, 2009. The increase of \$0.1 million or 1.2% was the result of a higher blended rate per minute off-set by the decrease in the number of minutes, consistent with the increase in revenues.

Cost of revenues for Corporate Services and Other during the three months ended March 31, 2010 was \$227 thousand, compared to \$93 thousand during the three months ended March 31, 2009, an increase of \$134 thousand, or 144.0%. This increase was attributable to a larger customer base during the first quarter of 2010, compared to the same period in 2009.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization decreased by \$257 K or 52.6% to \$232 thousand during the three-months ended March 31, 2010, from \$489 thousand during the three months ended March 31, 2009. The Company's depreciation expense decreased as more assets were fully depreciated than were placed into service during the first quarter of 2010 compared to the first quarter of 2009.

Selling, General and Administrative

Selling, general, and administrative expenses decreased \$300 thousand or 12.0% to \$2.2 million for the three-months ended March 31, 2010, from \$2.5 million during the three months ended 2009. This decrease is primarily attributable to decreases in the areas of communication, occupancy, consulting, and travel and entertainment as the company continues to focus on cost containment.

Advertising and Marketing

Advertising and marketing expenses decreased \$4 thousand or 50% to \$4 thousand during three-months ended March 31, 2010, from \$8 thousand during the three months ended March 31, 2009, as a result of our focus on cost containment.

Operating Loss

The Company's operating loss decreased \$0.9 million or 37.5% to a loss of \$(1.5) million during the three months ended March 31, 2010, from a loss of \$(2.4) million during the three months ended March 31, 2009. The decrease in operating loss was primarily attributable to lower selling, general, and administrative expenses as a result of the company's focus on cost curtailment.

Other Income (Expense)

Total other income (expense) decreased by \$58 thousand or 62.4% to an expense of \$35 thousand in the first quarter of 2010, from an expense of \$93 thousand during the same period in 2009.

Discontinued Operations

Loss from discontinued operations decreased by approximately \$479 thousand, or 99.8% to \$(1) thousand during the three months ended March 31, 2010, from \$(480) thousand during the three months ended March 31, 2009. The main factor contributing to this decrease was the initiation of the Company's restructuring of its operating segments during the first quarter of 2009, in an effort to focus on the development of its corporate and carrier sales.

Net Loss

Net loss decreased \$1.5 million or 50%, to \$(1.5) million during the three months ended March 31, 2010, from \$(3.0) million during the three months ended March 31, 2009. The main factors contributing to this decrease were reduced operating expenses, and the reduction of losses attributable to discontinued operations.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating and net losses. In addition, we are not generating positive cash flow from operations. As of March 31, 2010, we had a stockholders' deficit of approximately \$(7.7) million as compared to \$(7.3) million at December 31, 2009, and a working capital deficit of approximated \$(9.7) million as compared to \$(9.4) million at December 31, 2009. During the three months ended March 31, 2010, the Company raised approximately \$0.6 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 company uses the proceeds from these transactions primarily for general corporate purposes. We may seek further financing through the sale of debt or equity 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 the Company's cash flows for the periods indicated is as follows:

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2010 | 2009 |
| | (unaudited) | |
| Cash from continuing operations: | | |
| Cash used in operating activities | \$ (1,629,417) | \$ (1,528,853) |
| Cash provided by (used in) investing activities | (9,262) | (7,346) |
| Cash provided by financing activities | <u>1,403,622</u> | <u>1,320,996</u> |
| Increase (decrease) in cash and cash equivalents from continuing operations | (235,057) | (215,203) |
| Cash from discontinued operations: | | |
| Cash provided by operating activities of discontinued operations | 6,560 | 29,434 |
| Cash provided by investing activities from discontinued operations | <u>—</u> | <u>—</u> |
| Net increase in cash and cash equivalents from discontinuing operations | 6,560 | 29,434 |
| Net increase (decrease) in cash and equivalents from continuing and discontinuing operations | (228,497) | (185,769) |
| Cash and cash equivalents, beginning of period | 99,019 | 427,433 |
| Cash and cash equivalents, end of period | <u>\$ (129,478)</u> | <u>\$ 241,664</u> |

Sources of Liquidity

As of March 31, 2010, we had cash and cash equivalents of approximately \$(129) thousand, and Accounts Receivable of approximately \$2.8 million. In addition, as of March 31, 2010 we had approximately \$0.4 million of cash restricted from withdrawal and held by banks as certificates of deposits securing letters of credit (equal to the amount of the certificates of deposit).

From our inception through March 31, 2010, we financed our operations from operating revenues and 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 \$67.7 million of equity securities, \$1.6 million from the exercise of stock options and warrants, and \$29.8 million from loans evidenced by the issuance of promissory notes. In addition, since inception we have financed the acquisition of \$8.2 million of fixed assets through capital leases.

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

Uses of Liquidity

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

Our cash capital expenditures were approximately \$9 thousand and \$9 thousand for the three months ended March 31, 2010 and 2009, respectively. We expect our cash capital expenditures to be approximately \$150,000 for the next nine-months ending December 31, 2010. The 2010 estimated capital expenditures primarily consist of additional wholesale, corporate services and other infrastructure development.

Cash used in operations was approximately \$1.6 million and \$1.5 million during the three months ended March 31, 2010 and 2009, 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 continue to focus on 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 March 31, 2010, we had approximately \$3.1 million of current-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 \$3.1 million.

Capital Instruments

In September 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 \$7.0 million of the Company's common stock. Through March 31, 2010, the Company has sold 31,320,083 shares of common stock for which proceeds of approximately \$5.0 million were received, net of expenses of approximately \$5,600. In addition, the Company issued five-year warrants to purchase 4,078,903 shares of common stock at an exercisable price of 120% of the closing price of the Company's common stock the business day before closing.

In March 2010, the Company entered into a service agreement with a company that will act as a placement agent and financial advisor to arrange the sale of equity securities on behalf of the company. The agreement will continue until the proposed sale of those securities is completed, or upon thirty (30) days prior written notice after expiration of one hundred twenty (120) days from the initial effective date of the agreement, or upon execution of another agreement that replaces this agreement.

Critical Accounting Policies and Estimate

The Company has identified the policies and significant estimation processes below as critical to the Company's business operations and the understanding of the Company's 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 United States, with no need for management's 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 the Company's 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, 2009, included in the Company's Annual Report on [Form 10-K](#). The Company's preparation of the Company's consolidated 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 the Company's consolidated 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

The Company's revenue is primarily derived from usage fees charged to carriers and corporations that terminate voice traffic over the Company's network, and from the monthly recurring fees charged to customers that purchase the Company's corporate products and services.

Variable revenue is earned based on the length (number of minutes duration) of a call. It is recognized upon completion of the call, and is adjusted to reflect the Company's allowance for doubtful accounts receivable and billing adjustments. Revenue for each customer is calculated from information received through the Company's 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 complete 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.

Additionally, the majority of the Company's monthly recurring charges for corporate services are billed in advance. To the extent that revenue received from the customer is related to services in the current month, it is booked to the current month's revenue. Any revenue received that is related to a future period is booked to deferred revenue, until the service is provided or the usage occurs.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of an allowance for doubtful accounts. On a periodic basis, we evaluate the Company's 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 voice calls for the Company's carrier and corporate customers. The majority of the Company's cost of revenues is thus variable, based upon the number of minutes actually used by the Company's customers and the destinations they are calling. Cost of revenues also includes the monthly recurring cost of certain platform services purchased from other service providers, as well as the monthly recurring costs of broadband Internet access and/or private line services purchased from other carriers to meet the needs of the Company's customers.

Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through the Company's network switches. During each period, the call activity is analyzed and an accrual is recorded for the revenues associated with minutes not yet 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 facilities comprising the Company's network backbone and the connectivity between the Company's switch facilities and the network backbone. These expenses generally include hubbing charges at the our New York switching facility that allow other carriers to send traffic to our switch, as well as satellite and/or fiber optic cable charges to connect to international destinations. The Company's fixed expenses also include monthly recurring charges associated with certain platform services purchased from other service providers and the monthly recurring costs associated with broadband Internet access and/or private line services purchased from other carriers to meet the needs of our corporate customers.

Intangible Assets and Goodwill Impairment Testing

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

Income Taxes

The Company accounts for income taxes in accordance with the requirements under U.S. GAAP which 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 June 2009, the FASB issued guidance related to improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its consolidated 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 previously issued guidance related to the 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 consolidated financial statements of the transferors. This new guidance must be applied as of January 1, 2010, the beginning of the Company's first annual reporting period after November 15, 2009. Earlier application of this guidance is prohibited and 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 the guidance should be applied to transfers that occurred both before and after the effective date of this statement. The adoption of the new guidance did not have any substantive impact on the on the Company's condensed consolidated interim financial statements or related footnotes.

In June 2009, the FASB, issued replacement guidance related to The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles, which 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. The Company applied the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 did not have any substantive impact on the Company's condensed consolidated interim financial statements or related footnotes.

Forward-Looking Statements

The discussion in this quarterly report regarding the company's 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 the Company's 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 the Company's filings with the SEC. However, the risks included should not be assumed to be the only things that could affect future performance. We may also be subject to disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4T. Controls and Procedures.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2010. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to accomplish their objectives.

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

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2010, 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.

On or about September 10, 2009, a landlord over premises leased by the Company commenced a proceeding in the New York City Civil Court, County of New York (Index No. 084795/09), in which the landlord sought to recover against the Company unpaid rent and related charges due under a lease agreement between the landlord and the Company, and to evict the Company from the premises. By Stipulation of Settlement dated October 31, 2009, the landlord and the Company agreed that the landlord would be entitled to a judgment in the amount of approximately \$246,000 and a warrant of eviction, but that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the Stipulation. By a First Amendment to the Stipulation of Settlement dated January 15, 2010, the parties agreed to modify the payment schedule in the original stipulation. The amended stipulation also provided that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the payment schedule in the amended stipulation. The Company has executed the stipulation of settlement and delivered the signed stipulation to the landlord; however, the landlord has not yet returned a fully signed copy of the stipulation to the Company. Although the settlement will not become effective unless and until it is executed by the landlord, in view of the amicable historic relationship with the landlord, we anticipate that this matter will be resolved as indicated above. The final two payments under the stipulation, in the amount of \$96,039, due on March 5, 2010, and April 5, 2010, have not yet been paid by the Company. Although the Company is in default, the landlord is cooperating with the Company to allow the additional time needed by the Company to make the final payments and the Company believes that the matter will ultimately be resolved.

Item 1A. Risk Factors.

An investment in our Securities involves a high degree of risk. You should carefully consider the risks described below before you decide to invest in our Securities. If any of the following events actually occur, our business could be seriously harmed. In such case, the value of your investment may decline and you may lose all or part of your investment. You should not invest in our Securities unless you can afford the loss of your entire investment.

Risks Related to Our Business

We have a history of operating losses, 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.

At March 31, 2010, we had a working capital deficit of approximately (\$9.7) million and a stockholders' deficit of approximately (\$7.7) million. Although we have reduced our losses, we continue to sustain losses from operations and for the period ended March 31, 2010, and 2009 we incurred net losses applicable to common stockholders of approximately (\$1.7) million, and (\$3.2) million, respectively. In addition, we did not generate positive cash flow from operations for the periods ended March 31, 2010, and 2009. We may not be able to generate profits in the future 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.

These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders' deficit. In light of our recurring losses, accumulated deficit and cash flow difficulties, the report of our independent registered public accounting firm on our financial statements for the fiscal year ended December 31, 2009 contained an explanatory paragraph raising substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that may be necessary in the event we are unable to continue as a going concern.

Our Carrier revenue performance is subject to both internal and external influences, which have and may continue to negatively impact our revenues.

During 2009, the Company's Carrier revenue was negatively impacted by seasonal and economic market fluctuations and a decline in the overall market, which was influenced by the general economic decline. In addition, resources that we would otherwise have dedicated to revenue growth were constrained by factors including our dedication of significant resources to restructuring and exiting the Consumer segment, and we were adversely affected by limits on our ability provide extended payment terms to larger customers. We anticipate that these revenue growth constraints will be eased as the general economic conditions improve, and completion of our exit from the Consumer segment is expected to enable us to dedicate resources to increasing Carrier and Corporate revenue streams. There is no assurance that we will be successful in our efforts to reverse recent reductions in revenue generation, and if we are unable to do so, our profitability will be limited and the results of our operations will be adversely affected.

Our business is capital intensive, and we do not currently generate sufficient revenues to offset our operating expenses. If we are unable to obtain additional funding, as and when required, we may have to significantly curtail or possibly terminate our operations.

We will require substantial future capital in order to continue to fund our operating expenses and to otherwise execute our business plan. If we are unable to obtain additional financing or generate sales revenue sufficient to sustain our operations, as needed, we could be forced to significantly curtail or suspend our operations, including laying-off employees, recording asset impairment write-downs and other measures. Additional capital may not be available to us when needed, or on terms that are acceptable to us, or at all.

Historically we have funded our working capital requirements through the sale of our equity. The use of our equity to fund operations is dilutive to the equity ownership of our securities by our existing stockholders. Unless we are able to generate substantial revenues to fund our operating expenses, we will be required to continue to fund operations through the sale of our equity.

In addition, limited cash resources may restrict our ability to sell those carrier services that require us to purchase termination capacity on shorter payment terms than the terms under which we are able to sell to our customers. This could limit our ability to grow our revenues and/or margins, or limit our ability to achieve our revenue and/or margin targets.

We have historically relied on our officers and directors to loan us funds to sustain our operations. If such loans are not available if and when we require them in the future, we may have insufficient capital to operate. We may also be required to repay loans, including those from our affiliates, from our accounts receivable.

Historically, we have relied upon loans from certain of our officers and directors to sustain our operations. In addition, the loans to our affiliates, as well as loans we have received from others, are collateralized by a pari passu security interest in all of our accounts receivable. In the event that the funds from this Offering are insufficient to satisfy our operating needs, and we are unable to generate sufficient funds from operations for such purposes, we may require further loans from our affiliates. There is no assurance that our affiliates will be able to provide us with additional capital as and when we require it in the future, and, if they are unable to do so, we may have insufficient funds with which to sustain operations.

Funds loaned to us have been evidenced by demand notes, or by term notes that may convert to demand notes. Any sudden demand for payment from the holders of these notes could adversely affect the availability of the funds required to continue operation of our business.

We have historically funded our cash flow requirements, in part, from the proceeds of loans evidenced by demand promissory notes or by term promissory notes. To the extent that the term notes were not repaid on the maturity date, they were typically converted into demand notes. As of March 31, 2010, approximately \$3.1 million of indebtedness was evidenced by such demand notes, of which approximately \$2.4 million was held by our Chairman, Marvin Rosen. In addition, the holders of these notes have been granted a pari passu security interest in our accounts receivables. If these note holders were to suddenly demand payment of all outstanding demand notes, or a substantial portion thereof, we likely would not have sufficient funds to repay those notes. In such event, the note holders could assert rights against us in legal proceedings, and could seek to collect on their notes by enforcing their security interest in our accounts receivable. This could adversely affect the availability of the funds required to continue operation of our business.

If we are unable to manage our growth or implement our expansion strategy, we may increase our costs without increasing 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 growth is dependent upon market developments and traffic patterns, which may lead us to make expenditures that do 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 litigation regarding patent infringement to which we were not a party.

We may be impacted by 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 a future royalty payment equal to 5.5% of Vonage's customer sales. The patents related in part to technologies used to connect Internet telephone use to the traditional telephone network. Vonage appealed the decision, but terminated its appeals options in November 2007, when it agreed to pay Verizon approximately \$120 million in settlement. The future impact, if any, of this litigation on other VoIP service providers, including us, is unclear. 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, but did not result in any losses of confidential customer information or material financial losses. Any network failure could harm our ability to deliver certain services, our reputation and subject us to liability.

Our revenue 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 efficient 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 partners that sell our corporate services. If we are unable to identify or contract for such distribution relationships, or if the efforts of third party sales agents are not successful, we may not generate the customers or revenues currently envisioned.

We are dependent upon our ability to obtain the necessary regulatory approvals and licenses to enter new domestic and international markets in which such approvals are required. Such approvals may or may not occur as planned and may or may not be delayed.

Our entry into new domestic and international markets may in certain cases rely upon our ability to obtain licenses or other approvals to operate in those markets, our ability to establish good working relationships with the relevant telecommunications regulatory authorities in that jurisdiction, or our ability to interconnect to the local telephone networks in that market. There can be no assurance of our ability to accomplish these requirements.

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

The communications industry, including the provisioning of voice services, Internet services 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 carrier 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 them and substantially lower revenues for the legitimate providers), may have an impact on the market. In addition, many of our current carrier and corporate competitors are significantly larger and have substantially greater market presence as well as greater financial, technical, operational, marketing, and other resources and experience. In the event that such a competitor expends significant sales and marketing resources in one or several markets where we compete with them, we may not be able to compete successfully in those markets. We also 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 the price reductions of our competitors. 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 voice, 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, technical, sales, and marketing resources, or with larger client bases, more extended networks, or more established relationships with vendors, distributors and partners. 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 other domestic carriers, Internet service providers, international 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. In addition, if a carrier with whom we interconnect does not carry the traffic routed to it, or does not provide the 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 with whom we interconnect 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, 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 of supply, if and as required, it could result in an inability to deliver the services that we currently provide or intend to provide, and our financial condition and results of operations may be adversely affected thereby.

We rely on the cooperation of other international carriers and/or postal telephone and telegraph companies (PTTs), who may not always cooperate with us in our attempts to serve a specific country or market.

In some cases, the growth of our carrier services business requires the cooperation of other international carriers and/or the incumbent PTT in order to provide services to or from specific countries or markets. In the event the PTT, or another in-country international carrier, does not cooperate with us or support us in our efforts to serve that country, our ability to provide service to or from that country may be delayed, or the costs to provide service might increase due to our being forced to use another more expensive carrier. 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, any failure in 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 potential future 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 we seek to enter 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. Also, deregulation of the communications markets in developing countries may or may not continue. Incumbent service providers, trade unions and others may resist legislation directed toward deregulation and may resist allowing us to interconnect to their networks. The legal systems in emerging markets also frequently have insufficient experience with commercial transactions between private parties, and consequently, we may not be able to protect or enforce our rights in some emerging market countries. Governments and regulations may change, thus impacting the availability of new licenses or the cancellation or suspension of existing operating licenses. The instability of the laws and regulations applicable to our businesses, as well as their interpretation and enforcement, could materially and adversely affect our business, our financial condition, or results of operations in those countries.

The regulatory treatment of VoIP outside the United States 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 more onerous regulations. In such cases, our failure to register could subject us to fines, penalties, or forfeiture of our right to do business in that country. 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.

As a result of changes in regulatory policy, we could be forced to pay additional taxes on the products and services we provide. We structure our operations and our pricing based on assumptions about various domestic and international tax laws, tax treaties, and other relevant laws. Taxation authorities or other regulatory authorities might not reach the same conclusions about taxation that we have reached in formulating our assumptions. 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 products and 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 Internets. 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 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 revenues are provided by a limited number of customers. Specifically, our five largest customers accounted for approximately 66% and 72% of our revenues for the years ended December 31, 2009 and 2008, respectively. 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

One stockholder may be deemed to control us through its stock ownership and its interests may differ from other stockholders.

West End Special Opportunity Fund II, LP (“West End”) currently beneficially owns approximately 18.7 million shares, or 19.8%, of our outstanding common stock, and is the second largest single voting block in the Company. Additionally, our Directors and Executive Officers as a group currently beneficially own approximately 29.1 million shares, or 27.1% of our common stock. As a result, while neither West End nor our Directors and Officers as a group, have sufficient voting power to control the outcome of matters submitted to a vote of our stockholders, the extent of their ownership enable both groups to influence the outcome of these matters, including the election of directors and extraordinary corporation transactions including business combinations. Their interests may differ from those of other stockholders. Should West End and our current Directors and Executive Officers vote in the same manner, West End and our current Directors and Executive Officers, collectively, have sufficient voting power to effectively determine the outcome of most matters submitted to a vote of stockholders.

We are not likely to pay cash dividends on our common stock in the foreseeable future.

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.

Our common stock is subject to price volatility unrelated to our operations.

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other companies in the same industry, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

In addition, the market price of our common stock may fluctuate significantly in response to a number of other factors, many of which are beyond our control, including, but not limited to, the following:

- our ability to obtain securities analyst coverage;
- changes in securities analysts’ recommendations or estimates of our financial performance;
- changes in market valuations of companies similar to us; and announcements by us or our competitors of significant contracts, new offerings, acquisitions, commercial relationships, joint ventures or capital commitments; and
- the failure to meet analysts’ expectations regarding financial performances.

Furthermore, in the past, companies that have experienced volatility in the market price of their stock have been subject to Securities class action litigation. A Securities class action lawsuit against us, regardless of its merit, could result in substantial costs and divert the attention of our management from other business concerns, which in turn could harm our business.

Our common stock may be subject to the "Penny Stock" rules of the Commission, which will make transactions in our common stock cumbersome and may reduce the value of an investment in our common stock.

As the trading price of our common stock is less than \$5.00 per share, our common stock may be considered a "penny stock," and trading in our common stock is subject to the requirements of Rule 15c-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

Securities and Exchange Commission regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of securities in the secondary market because few broker or dealers are likely to undertake these compliance activities. In addition to the applicability of the penny stock rules, other risks associated with trading in penny stocks could also be price fluctuations and the lack of a liquid market.

The elimination of monetary liability against our directors, officers and employees under our certificate of incorporation and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our Company and may discourage lawsuits against our directors, officers and employees.

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our Company and stockholders to the maximum extent permitted under Delaware corporate law. Our By-laws also require us to indemnify our directors to the maximum extent permitted by Delaware corporate law. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our Company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our Company and stockholders.

The issuance of our common stock upon the exercise of options or warrants or the conversion of outstanding convertible securities may cause significant dilution to our stockholders and may have an adverse impact on the market price of our common stock.

As of the date of this report, there were 100,155,190 shares of our common stock outstanding. The issuance of our shares upon the exercise or conversion of securities we have outstanding will increase the number of our publicly traded shares, which could depress the market price of our common stock.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the stock price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

We could use preferred stock to fund operations or resist takeovers, and the issuance of preferred stock may cause additional dilution.

Our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock, of which 7,995 shares of Series A-1 through A-4 Preferred Stock are currently issued and outstanding. Our certificate of incorporation gives our board of directors the authority to issue preferred stock without the approval of our stockholders. We may issue additional shares of preferred stock to raise money to finance our operations. We may authorize the issuance of the preferred stock in one or more series. In addition, we may set the terms of preferred stock, including:

- dividend and liquidation preferences;
- voting rights;
- conversion privileges;
- redemption terms; and
- other privileges and rights of the shares of each authorized series.

The issuance of large blocks of preferred stock could possibly have a dilutive effect to our existing stockholders. It can also negatively impact our existing stockholders' liquidation preferences. In addition, while we include preferred stock in our capitalization to improve our financial flexibility, we could possibly issue our preferred stock to friendly third parties to preserve control by present management. This could occur if we become subject to a hostile takeover that could ultimately benefit us and our stockholders.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. (Removed and Reserved).

Not Applicable

Item 5. Other Information.

None

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. |
| 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. |

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
Chief Executive Officer

May 17, 2010

BY: /s/ GORDON HUTCHINS, JR.

Gordon Hutchins, Jr.
President, Chief Operating Officer and Acting Chief Financial Officer

May 17, 2010

Index to Exhibits

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EXHIBIT 31.1

Certification of the Chief Executive Officer

I, **Matthew D. Rosen**, 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.

May 17, 2010

By: /s/ MATTHEW D. ROSEN

Matthew D. Rosen
Chief Executive Officer

Certification of the Chief Financial Officer

I, **Gordon Hutchins, Jr.**, 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.

May 17, 2010

By: /s/ **GORDON HUTCHINS, JR.**

Gordon Hutchins, Jr.

President, Chief Operating Officer, and Acting 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 March 31, 2010, (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.

May 17, 2010 By: /s/ MATTHEW D. ROSEN
 Matthew D. Rosen
 Chief Executive Officer

May 17, 2010 By: /s/ GORDON HUTCHINS, JR.
 Gordon Hutchins, Jr.
 President, Chief Operating Officer, and Acting 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.