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

FORM 10 -K

(Mark One)

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

For the fiscal year ended December 31, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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 charter)

Delaware	**58-2342021**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

420 Lexington Avenue, Suite 1718, New York, New York 10170
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Common Stock, par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant based upon the closing price of the common stock reported by the OTC Bulletin Board TM (the "OTCBB™") on June 30, 2010 of $0.13 per share, was $5,416,669. Solely for purposes of this calculation, shares beneficially owned by directors and officers of the registrant and persons owning 5% or more of the registrant's common stock have been excluded, in that such persons may be deemed to be affiliates of the registrant. Such exclusion should not be deemed a determination or admission by the registrant that such individuals or entities are, in fact, affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of March 31, 2011, is as follows:

Title of Each Class	Number of Shares Outstanding
Common Stock, $0.01 par value	132,010,498

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to 424(b) or (c) under the Securities Act of 1933.

NONE

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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PART I

Item 1. Business.

Overview

Fusion Telecommunications International, Inc. (the terms “Company,” “us,” and/or “we,” and other similar terms as used herein, refer collectively to the Company together with its principal operating subsidiaries) is a provider of Internet Protocol ("IP") based digital voice and data communications services to corporations and carriers worldwide. The Company’s strategy is to continue to grow its existing carrier business segment, while accelerating the growth of its corporate business segment, to ensure that an increasing portion of its total revenues are derived from the higher margin and more stable corporate business segment.

The Company's services include local, long distance, and international Voice over Internet Protocol ("VoIP") services; broadband Internet access; private line circuits; audio and web conference calling; fax services; and a variety of other enhanced communications services and features. The majority of the Company’s services utilize state-of-the-art VoIP technology rather than traditional circuit-switched technology. This choice of technology allows us to efficiently deliver voice, data, and Internet access services over a single facility, while providing service quality and reliability comparable to that of the historical circuit-switched service providers.

In the past, we have also marketed services to consumers. However, during 2009 the decision was made to exit the consumer business segment as part of a restructuring designed to decrease the Company’s operating costs, enhance overall efficiency, and increase our focus on the more stable and profitable corporate and carrier segments. As a result of this restructuring, we believe that the Company is better able to achieve its financial objectives and increase the percentage of total revenues derived from the Company’s higher margin corporate business segment.

Our carrier services are sold to other communications service providers throughout the world, including U.S. based carriers wishing to terminate transmission of telephone services to international destinations and foreign carriers wishing to terminate to the U.S. and throughout the world. We also purchase domestic and international termination services from many of our carrier customers. We currently have over 270 carrier customers and vendors.

In addition to our strong position in the carrier market, we believe that Fusion is well positioned to capitalize on the continuing rapid growth of the corporate VoIP market. Our corporate services are sold to small, medium, and large businesses, located within the United States and selected foreign countries. These predominantly IP-based services are designed to meet the communications needs of growing businesses, while maximizing the price-performance ratio. We currently serve corporate users in 28 states.

We believe that the global networking infrastructure available through our carrier operations, coupled with the Company's ability to leverage our domestic and international carrier relationships, provides us with a significant competitive advantage in the corporate market segment. We also believe that the extensive experience of our sales, operations, and management personnel provides the skills necessary to execute our strategy and grow this important new segment of the Company's business.

Services

Historically, we have derived the majority of our revenues from the carrier business segment. Specifically, those revenues have come primarily from U.S.-based carriers requiring voice connectivity to emerging markets. As we continue to execute our strategy for this segment, we anticipate serving a larger number of non-U.S. based carrier customers, who will require voice connectivity to the U.S. and to foreign locations.

We are currently seeking to aggressively expand our higher margin corporate revenue stream by continuing to market to small, medium, and large business customers. These corporate services are marketed via both direct sales and partner sales distribution channels. In general, the direct sales organization targets medium and large enterprise customers, while the partner sales organization targets small to medium businesses.

Corporate Services

Fusion offers a full suite of advanced corporate communications solutions, designed to provide significant benefits to small, medium, and large businesses with single or multiple locations worldwide. Our solutions provide all required hardware as well as the services themselves, thus providing the customer with everything needed to implement a complete communications service solution.

Our corporate services are designed to minimize upfront capital costs, increase the scalability and flexibility of the customer's communications network, provide compelling features when compared to traditional analog telephone service, offer high digital quality, and reduce the overall cost of communications. On average, we believe that our corporate services save the customer approximately 20%, when compared to similar services offered by that customer's previous service provider. Fusion's IP-based corporate solutions also prioritize voice traffic over data traffic to ensure that a customer always has adequate Internet bandwidth to experience premium voice quality.

Fusion's growing suite of corporate services includes:

Hosted IP-PBX – Fusion's Hosted IP-PBX service allows a customer to completely replace the legacy office telephone system it owns or leases with a state-of-the-art digital telephone system that is provided by Fusion on a "hosted" basis. Our feature-rich, hosted solution eliminates the need to own and operate a costly, complex telephone system – often reducing upfront capital costs by 50% or more, and eliminates the cost of calls between corporate locations. This service is ideal for companies with multiple offices or a highly mobile workforce, and for companies that are opening a new office or need to expand or replace existing telephone systems. Full integration with Microsoft Outlook® provides a simple method to place calls by clicking on an Outlook® contact, while voicemails are delivered as emails with an attached voice message that can be played on virtually any computer or handheld wireless device. All corporate service options can be configured by the user in real time using a personal user portal, virtually eliminating the costs associated with the labor-intensive reconfiguration of legacy telephone systems.

IP Connect – Our IP Connect service allows a customer to retain and use its existing legacy telephone system, while relying on Fusion's IP-based network to provide its local network access and domestic and international long distance service. IP Connect customers save on their local, long distance, and international call charges, and gain the many advantages of Internet telephony. They also eliminate the cost of interoffice calling, and combine their voice and data traffic onto a single broadband access facility for further cost savings – all without having to write off their existing technology investment.

IP Termination – IP Termination service allows a company to retain and use its existing legacy telephone systems, as well as its existing local network access facilities, while leveraging Fusion's global network to obtain high quality, low cost domestic and international long distance service. This is a service that would typically be used by major corporations with significant domestic and/or international calling.

PRI Service – A single PRI connection provides up to 24 voice lines that deliver high quality service at low cost. Fusion's PRI Service allows for multiple trunk groups and offers a wide range of outbound, inbound and two-way calling options, including local, regional, long distance, international and toll free services. Fusion's customers can choose the plan that best suits their specific calling patterns and needs: measured (usage-based) services, flat-rated services, or customized packages of local, regional and long distance services.

Internet Access – Fusion offers reliable, secure and cost-effective broadband Internet access to all users. Fiber optics, broadband over copper, and other technologies, allow us to provide Internet access at bandwidth levels ranging from T-1 (1.5 Mbps) to DS-3 (45 Mbps) and higher. Utilizing our ability to route both voice and data over the same facility, and using Quality of Service routers designed to always provide adequate bandwidth for the highest quality voice traffic, we seek to maximize the efficiency of the Internet access service purchased. Our strong relationships with carriers throughout the world also allow us to provide Internet access on a global basis.

Conferencing Service – Fusion's conferencing service offers business customers a versatile online meeting experience. The simple-to-use, reservation-less service combines traditional audio conferencing with web access to let corporations communicate at any time with customers, suppliers, and partners anywhere. The service integrates with Microsoft Outlook®, offers audio recording capability, and even allows the user to publish recorded content as a podcast for further distribution.

Fusion Fax – Fusion's desktop fax solution allows customers to electronically send, receive, store, and print faxes using their existing email and Internet infrastructure. This advanced fax solution requires no application-specific hardware or software, and employs the latest in security capabilities. Additionally, each user account can be personally controlled through a secure web interface that controls user preferences, cover sheet design, and delivery reporting options.

Private Line Networks – Leveraging our own network, as well as our relationships with carriers throughout the world, we offer corporate users a full range of private line services between both domestic and international locations. Services can be engineered to both U.S. (T-1) and international (E-1) standards, are available at all bandwidth levels, and can be provisioned using traditional fiber optic or satellite facilities as well as packet-based technologies. Services include traditional point-to-point networks, as well as Multi-Protocol Label Switching (MPLS) networks and Virtual Private Networks.

Co-Location Services – Fusion offers its corporate customers the opportunity to locate their communications or data processing equipment in its secure, co-location facility. Our facility offers full environmental controls, battery and generator back-up power (AC and DC), 24x7 key-card access, round-the-clock security and alarm monitoring, and a wide range of technical support services that can be provided by our on-site technical support personnel.

We combine services as necessary to create the precise communications package required by each customer. For example, we may use IP Connect service at a customer's headquarters location that already has a significant investment in telecommunications hardware, yet utilize a Hosted IP-PBX solution at a new branch office location being established. Each customer is different, and we believe that our ability to uniquely tailor services to the individual customer's requirements is a major part of what differentiates Fusion from the competition.

Our corporate services generally offer several different calling packages, designed to meet the needs of different users. Base level plans offer a nominal monthly recurring charge (MRC) for the basic service package. Additional services, such as local, long distance, or international calling, are charged at per minute rates. Other packages with a higher MRC may include a specific number of minutes of local or long distance calling or even unlimited local or long distance calling. Optional, value-added features for our basic services are available for an incremental MRC appropriate for the service. Internet access services and/or private line services are charged on the basis of a fixed MRC for the service provided, and are generally based on the bandwidth utilized, and the endpoints of the circuit.

We have contracts with all of our corporate customers. The Company's contracts range from one year to five years, and all contracts have early cancellation penalties. The majority of our contracts are for a three-year term, and the current average term of all contracts combined is approximately 2.7 years.

Carrier Services

Our carrier services include voice termination via both VoIP and traditional Time Division Multiplexing (TDM) or "circuit-switched" technology. This wholesale termination traffic consists of minutes of domestic and international long distance usage that must be terminated to telephone numbers in the intended destination countries. The majority of this traffic is international traffic, and we terminate carrier voice traffic to all countries worldwide using three distinct methods of termination:

Direct Termination –Traffic routed via direct termination will travel directly from Fusion's international gateway switch to the facilities of an interconnecting carrier in the destination country. We enter into "interconnection agreements" with such carriers, typically the dominant or secondary carrier in the applicable market. The Company's interconnection with the distant carrier is usually via VoIP, but may in some cases utilize leased fiber optic or satellite transmission facilities. Our direct termination agreements allow us to terminate voice traffic into that country and, in most cases, receive return traffic from that country. The interconnection agreement provides for a "direct" relationship between Fusion and the interconnecting carrier and provides the maximum level of control over route quality, capacity, and cost.

Indirect Termination – Traffic routed via indirect termination will also travel from Fusion's international gateway switch to the facilities of a carrier in the destination country. However, when utilizing indirect termination, we are sharing the interconnection arrangement and facilities with another carrier. The Company has dedicated capacity on the route, and significant control over quality and capacity, but does not bear the sole cost burden of the route or the sole responsibility of maximizing utilization of the route.

Transit Termination – Traffic routed via transit termination will travel from Fusion's international gateway switch via another carrier's switch and their international routes to the destination country. We often use multiple transit termination routes in order to obtain the best possible levels of quality and capacity for the termination of our carrier customers' voice traffic.

All voice termination services utilize our proprietary least cost routing (LCR) technology and systems, to insure termination to the final destination at the lowest possible cost, thus maximizing our profit on that traffic. Using LCR technology, we will often "blend" routes to provide our customers with the optimal mix of price and quality, or to meet unique customer requirements for the termination of voice traffic to specific countries.

We also utilize the termination capacity obtained through our interconnection agreements and other methods of termination to carry our corporate customers' long distance traffic. As we continue to execute our strategy for the growth of our corporate business segment, we expect to use an increasing percentage of our termination capacity to carry our higher margin corporate traffic.

We procure required Internet access and private line circuits from our global network of carriers. We also leverage our relationship with these carriers in order to provide the high quality, low cost Internet access, and private line services necessary to meet the international communications requirements of our corporate customers.

In addition to our carrier voice termination services, we provide co-location services to other communications service providers, enabling them to co-locate their equipment within our switching facility or lease a portion of our equipment located at that site. We also provide a variety of equipment maintenance services and other technical services to our carrier co-location customers. In addition, we frequently provide voice termination services to the carriers that co-locate with us.

All carrier voice termination services are priced on a per minute basis, based upon the destination called, the time of day, and the customer's overall traffic volume. We have reciprocal agreements with many of our customers, and the pricing in those agreements may also reflect the pricing provided to us for our terminating traffic. Prices for Internet access or private line service provided to carriers, as well as pricing for co-location services, are based on a fixed MRC for the services provided.

We have contracts with all of our carrier customers. Our contracts with carriers typically have a one-year renewable term, with no minimum traffic volume per month, and allow the customer to terminate without penalty.

For the year ended December 31, 2010, our five (5) largest customers represented the following percentages of our revenue, Qwest Communications 18.8%, MCI Communications d/b/a Verizon 13.8%, AT&T 9.2%, T-Systems 6.8% and VCG Telecom 5.2%. For the year ended December 31, 2009, the Company's five (5) largest customers as a percentage of revenue were Qwest 16.0%, MCI Communications d/b/a Verizon 15.8%, VCG Telecom 14.4%, IDT 11.2% and AT&T 9.0%.

Strategy

Our strategy is to continue to grow our existing carrier business, while accelerating the growth of our corporate business to ensure that an increasing portion of our revenues are derived from this higher margin and more stable business segment.

Corporate Segment Strategy

In our corporate segment, we are focusing on generating the rapid growth necessary to make the revenues and margin from this segment a more significant portion of total Company revenues and margin. Specifically, we will focus on the following strategies:

- *Expand the Direct Sales Effort* – We intend to continue to expand the direct sales effort that we launched during 2009, both by adding new sales personnel and adding new sales office locations. We currently have direct sales personnel based in our New York headquarters and our South Florida office. In the future, we intend to expand our direct sales effort to include other major metropolitan areas within the United States.

- *Focus on Direct Sales to Large Enterprises* – In the current economy, large enterprises are particularly focused on saving costs wherever possible. This provides us with an excellent entry to some very large potential customers that previously may have been difficult to approach. We are leveraging this unique opportunity, as well the extensive contacts of our officers and directors, to meet with such large enterprise customers and drive the sale of our high-volume international call termination services, Internet access services, and private line networking services.

- *Increase the Number of Partners* – We continue to seek new sales "partners" to assist in the indirect sale of our services to small and medium businesses, and to target customers in markets where we do not currently have a direct sales presence. In particular, we are looking to attract partners that have an existing base of voice and/or data customers, partners with a significant direct sales effort and/or a network of sub-agents that can sell our products and services, and partners looking to add VoIP services to their existing product portfolio.

- *Increase Partner Productivity* – We are working to increase the average productivity of our sales partners with additional training on our products and services, targeted promotions, and closer management and support. We are also seeking to add new partners that have more direct control over the sale of our services, including hospitality management companies, franchise companies, and other similar entities.

- *Increase Average Revenue per Account* – We are seeking to increase the average revenue per account for both new and existing customers. We are focusing on the sale of add-on or enhanced services, including auto-attendant service, call center features, audio and web conferencing, and fax services. We are also working to increase the percentage of customers that order their broadband Internet access connections from us.

- *Introduce New Products and Services* – We intend to continue to attract new customers and drive increased revenue through the introduction of new products and services, as well as innovative and competitive new service packages.

Carrier Segment Strategy

In growing our carrier segment, we intend to focus on both the revenue growth and the margin growth of this segment. In particular, we will focus on the following:

- *Expand Direct Termination Agreements* – We will seek to expand the number of international carriers with whom we interconnect on a direct basis. As we continue to grow our base of carrier business, such direct interconnections are intended to provide the best possible levels of quality and capacity, with a view towards maximizing the revenue and margins attributable to the international traffic we terminate.

- *Increase Business with Existing Carrier Customers* – We will seek to strengthen our relationships with existing major customers, and to maximize the traffic received from and sent to them. We believe expanding existing relationships is the best way to quickly increase revenue, and that expanding volume generally leads to more attractive pricing and margins.

- *Increase Sales to Non-Traditional Carriers* – We will seek to expand our sales to non-traditional carriers, including cable television providers, Internet search engine companies, and large IP telephone companies. We believe the revenues streams from such entities will be more predictable and will offer better margins than the revenues from traditional domestic and international carriers.

- *Focus on Back-Office Automation* – We will continue to seek to automate functions that will allow us to reduce headcount or costs, thereby improving margins, and to respond more quickly to the needs of our carrier customers. In this area, we anticipate continued improvements in areas such as routing, code management, traffic monitoring and alarms, capacity management, provisioning, circuit testing, and billing.

Strengths

In executing our strategy, we believe that we will benefit from the following strengths:

- *Global Network Infrastructure* – Our IP-based network, coupled with our interconnection to over 270 major carriers, provides the connectivity we need to service the global requirements of our corporate and carrier customers. Moreover, we are able to leverage our extensive carrier relationships in order to provide Internet access, private lines circuits, and other services to meet the needs of our corporate users worldwide.

- *Flexible, Reliable, and Scalable Service Platforms* – Our integrated IP service platforms allow for the rapid introduction and deployment of new services, features, and functionality for our carrier and corporate users. Our redundant network elements and reliable off-the-shelf hardware allow for high quality and high service reliability, and the diversified architecture allows for scalability as well as additional network reliability.

- *Management, Directors, and Advisors* – Our executive management team has over 100 years of communications industry experience, and all of our senior executives have experience working in major telecommunications enterprises as well as smaller entrepreneurial ventures. Our board of directors includes recognized leaders in business, government, finance, real estate, and law.

- *Balanced Strategy* – We believe our strategy of balancing the traffic volumes, network efficiencies, interconnection agreements, and network infrastructure of our carrier business segment with the stability and higher margins of our corporate business segment will allow us to leverage the unique strengths of each business segment to further the growth of the other segment and thus accelerate our path to profitability.

- *Systems and Processes* – Our focused and systematic approach to sales, provisioning, installation, maintenance, and customer service, coupled with our expanding use of automated systems, is designed to quickly and efficiently grow our base of corporate and carrier customers, be fully responsive to the ongoing needs of those customers, and maintain the lowest possible operating costs for the Company.

Sales and Marketing

We market our IP-based services, as well as our broad range of other communications services, to carriers and corporations. Our day-to-day sales and marketing efforts employ direct sales and partner sales channels, as well as referrals and strategic relationships.

Direct Sales

Our carrier services are generally sold through direct sales channels. Our U.S.-based carrier sales and international business development personnel are responsible for selling to and buying from our carrier partners. We currently have such personnel based in New York and Los Angeles, as well as in Latin America.

Our corporate services are also sold through direct sales channels. We currently have corporate sales personnel based at our New York headquarters and at our Ft. Lauderdale office.

Our direct sales personnel are experienced professionals, who generally come to us with 10+ years of sales and communications experience. Ongoing training on our products and services, telecommunications technology, and sales techniques are a part of each direct sales person's weekly routine.

Our direct sales personnel are compensated on a combination of base salary and incentive compensation, with the latter being based directly on revenue and margin generated. Each sales person has established monthly objectives, and is held directly accountable for the achievement of those objectives.

Partner Sales

Our corporate services are also sold through independent, third-party sales agents or "partners," who leverage their existing business relationships to sell our services. Our partners are compensated solely on a commission-based structure. We typically control the product, pricing, branding, technical support, billing, and collections. Our partners include interconnect companies, data service companies, value added resellers, network and IT consultants, and LAN/WAN integrators, as well as companies dedicated to the sale of IP-based communications services. Many of these partners have multiple sales personnel working for them. In addition to local distribution and support, our partners sometimes assist in the installation of our services. As of December 31, 2010, we were represented by 83 partners located in 20 states.

Sales Referrals

For both our carrier and corporate services, we occasionally use referrals to gain our initial introduction to a potential customer. In such cases, we generally have a referral agreement with the applicable individual or entity, and will pay a referral fee in those instances where the introduction leads to a revenue producing relationship.

Strategic Relationships

We enter into agreements with strategic partners that wish to market and distribute our products and services. In some cases, an agreement may also provide us the ability to market the strategic partner's products and services. The terms of these agreements differ by partner, but in general such agreements provide for the selling party to receive a commission based on sales volume or to participate in a revenue or profit sharing arrangement.

Marketing

We generally focus our marketing efforts on support of our direct and partner sales efforts. In particular, we focus on sales collateral, trade shows, and events for prospective customers. Our use of advertising is minimal.

Operations

We believe the manner in which we service customers after they have placed an order has a significant potential to differentiate us from our competitors. We rely on our people and automated systems to ensure that provisioning, installation, training, billing, and customer service provide the best possible experience for our valued customers.

The provisioning process turns a customer order into the necessary equipment and systems programming to properly deliver the specific services that were ordered. In the case of the Company's corporate services, this means verifying all order information; conducting a site survey of the customer's location(s) and current equipment; building the proper customer profiles within our service platforms; ordering and shipping required telephones, routers, and other equipment; and setting up the necessary customer records in our billing system. For Internet access or private line circuits, provisioning may include engineering the circuit design and ordering required transmission facilities from the local telephone company or an interexchange carrier. In each case, we coordinate the efforts of our centralized provisioning organization and our provisioning systems to ensure that the process occurs in the minimum possible time, and that everything is tested and ready to meet the customer's scheduled installation date.

On the scheduled installation date, a Fusion installation technician (internal or contracted) is dispatched to the customer premises to complete the installation. Depending upon the actual service ordered, the technician may configure and install IP telephones, install a router or Internet access device, complete required cabling, install and test Internet service, or install and test private lines. It is our objective to complete the installation on the scheduled date, and leave the customer satisfied that everything has been properly installed and is performing as expected.

We believe that training the customer to take full advantage of the features and functionality of our corporate VoIP services is a critical component of the service delivery process. Thus, immediately after installation, we complete an in-depth training session with the customer – either in person or via web conferencing. During this training session, we train the customer's employees on the use of their new services and features, and train the customer's service administrator on the technical details required for the ongoing administration of the service. We also provide the customer with manuals covering the set-up and operation of the phones, voice mail, and user portals.

Customer invoices for our corporate services are delivered electronically via email on a monthly basis. We do not send paper invoices. Invoices include full call detail, as well as a breakdown of charges, taxes, and other fees. Monthly service charges are billed in advance, and usage based charges are billed in arrears. Our use of package plans, including local and/or long distance calling, increases the percentage of total charges billed in advance as an MRC, thus simplifying billing for us and the customer and minimizing subsequent customer service issues. Invoices for our carrier customers may be rendered on a weekly, semi-monthly, or monthly basis, and are also delivered electronically via email. Upon request, we will also provide carriers with an electronic file of their call detail records (CDR) for analysis or invoice audit purposes.

Customer service representatives are available to our customers on a 24 x 7 basis. Corporate customers will initially contact our retail customer service center, where billing questions and most general service questions are quickly answered. Where technical questions or service related issues require further assistance, the customer will be transferred to the Company's network operations center (NOC) for the necessary technical support. Our generally more sophisticated carrier customers will initially contact our NOC for assistance. The NOC continuously tracks real-time performance of the Company's network, and has full access to the necessary data, systems, tools, and technical personnel required to solve any customer or network issues.

The Network

Fusion's products and services are delivered over an advanced, IP-based communications network that leverages the latest technology and allows for the rapid introduction of new features and applications. The Company's service platforms are built on a distributed architecture that enables us to extend our products and services globally, delivering our voice and data services to customers worldwide. The Company's network operations center is manned 24 x 7, and employs state-of-the-art monitoring and alert systems that ensure quality of service and a proactive response to any potential customer service issues. Automated back-office and support systems accelerate service provisioning and allow customers to add or change services efficiently.

Our carrier-class network employs a digitized, packet-switched service platform capable of interfacing with all Internet protocols, as well as with TDM or circuit-switched systems, and providing the flexibility necessary to seamlessly transport our customers' voice and data traffic throughout the world. Multi-peered Internet access is delivered through dedicated and redundant high-speed interconnections to all major Internet backbones. Advanced route optimization technology delivers enhanced reliability and performance by routing around network hotspots and avoiding downtime, packet loss, and latency.

Key network elements include the Company's Veraz ControlSwitch and associated media gateways; BroadSoft retail services platform; Cisco media gateways, routers, and switches; and Nextone session border controllers. These redundant network elements are interconnected via a dedicated, fiber-based gigabit Ethernet backbone. Most network elements are based on software applications that execute entirely on off-the-shelf servers. Built for easy and rapid scalability, as well as security and reliability, Fusion's service platforms minimize the capital expenditures associated with legacy switching infrastructures, allow for shorter installation intervals and faster customer provisioning, and expedite the deployment of new and innovative products and services.

Our centralized network elements are housed in our own carrier-grade switching facility, located in a secure carrier building that houses many other carriers and is interconnected to all major carrier buildings. This choice of location allows for cost-effective and rapid interconnection and capacity expansion to carrier customers and vendors, as well as major enterprise customers. We believe our choices of location and equipment offer an extensible platform to support our envisioned growth and allow us to quickly embrace emerging technologies as they become available.

Our network architecture is highly distributable and allows us to deliver our carrier and corporate services to every part of the world, quickly and reliably. We are able to locate remote network gateways in decentralized locations throughout the world, yet control the services they deliver from our centralized facility. As a result, we believe we can capitalize on market opportunities that would previously have been uneconomical due to the expense of deployment and the associated marketplace risks. The Company's direct interconnections with over 270 global carriers are managed through sophisticated routing systems that allow us to fully monitor performance and dynamically route customer traffic based on unique parameters that ensure the highest quality at the lowest cost. Unlike many retail service providers that rely on only a few carriers to deliver their customers' traffic, Fusion can leverage the strength and depth of its carrier business to provide the greatest possible range of network and traffic termination options for its corporate customers.

Competition

The communications industry is highly competitive and significantly affected by regulatory changes, technology evolution, marketing strategies, and pricing decisions of the larger industry participants. In addition, companies offering Internet, voice, and data communications services are, in some circumstances, consolidating. Service providers generally compete on the basis of price, customer service, product quality, brand recognition, and breadth of services offered. Additionally, carriers may compete on the basis of technology. Recently, the ability to provide VoIP services has been a key differentiator. As technology evolves and legacy systems become an encumbrance, the Company's expect carriers to compete on the basis of technological agility, and their ability to rapidly deliver new services.

Within our carrier services segment, we compete with many of the largest domestic communications carriers, including AT&T, Verizon, Qwest, IDT, and Global Crossing. Internationally, we compete with major entities such as British Telecom, Telstra, Tata Communications, Cable & Wireless, Telecom Italia, and KDDI. We also compete with smaller internationally focused carriers, including Primus, iBasis, Phonetime, Compass Global, and BTS.

Within our corporate services segment, we compete with companies such as Vonage, CBeyond, 8x8, and Skype. However, as Vonage and Skype focus primarily on consumers and smaller business customers, we do not currently see them as major competitors. As we grow our presence in the corporate marketplace, we see our primary competitors as the business-focused VoIP service providers, like CBeyond and 8x8; service providers employing traditional technologies to sell into the enterprise marketplace, including PAETEC and XO Communications; cable television companies offering VoIP services, like Cox Communications, Comcast, and Cablevision; and the incumbent local telephone companies like AT&T, Verizon, and Qwest. We also believe that in the future, given relatively low barriers to entry, other companies may elect to compete in the VoIP services arena. While we believe the Company's technology, back office systems, distribution relationships, and marketing skills provide us with a competitive advantage, many of our existing competitors have significantly greater resources, and more widely recognized brand names.

Government Regulation

Generally, in the United States, our services are subject to varying degrees of federal, state, and local regulation, including regulation by the Federal Communications Commission (FCC) and various state public utility commissions or public service 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 U.S. and foreign regulatory agencies exercising jurisdiction over us 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.

As an international carrier, we are subject to FCC regulation under the Communications Act. We have applied for and received the necessary authority under Section 214 of the Communications Act to operate as an international carrier. Generally, the Company's international traffic is subject to minimal regulation by state and local jurisdictions.

The regulatory requirements associated with operating as a VoIP service provider are evolving, and have historically been less clear. For example, the VoIP Regulatory Freedom Act of 2004 exempted VoIP service from state taxes and regulations and defined VoIP services as "lightly regulated information services." However, the bill reserved the ability for states to require VoIP service providers to provide 911 services, to require them to contribute to state universal service programs, and to require them to pay intrastate access charges to other telecom providers.

In April 2004 the FCC rendered a decision on an AT&T Petition for Declaratory Ruling. It determined that where 1+ calls were made from regular telephones, converted into an Internet protocol (IP) format, transported over the AT&T Internet backbone, and then converted back from their IP format and delivered to the called party through the local telephone network, the service was a "telecommunications service" for which terminating access charges were due to the local exchange carrier. The FCC limited its decision to the specific facts of the AT&T case where the type of service involved ordinary Customer Premise Equipment (CPE) with no enhanced functionality, and the calls originated and terminated on the public switched telephone network (PSTN).

Although the FCC determined the specific services provided by AT&T to be telecommunications services subject to interstate access charges rather than information services not subject to such charges, it made no determination regarding the regulatory status of phone-to-phone VoIP or its exposure to key public policy issues like USF, 911 Emergency Service, and the Communications Assistance for Law Enforcement Act (CALEA). The FCC further qualified the decision by stating that they in no way intended to preclude themselves from adopting a different approach when they ultimately resolved the pending IP-Enabled Services rulemaking proceeding or the Inter-Carrier Compensation rulemaking proceeding.

In June 2005, the FCC imposed 911 emergency service obligations on providers of “interconnected VoIP services.” The FCC also required interconnected VoIP service providers to register with the FCC, comply with CALEA, and to make USF contributions. The FCC defined interconnected VoIP service as service where the customer was connected to the local PSTN for both origination and termination of telephone calls. Under this definition, Fusion is a provider of interconnected VoIP service. We believe that our services are currently compliant with all applicable requirements of the FCC’s order, and we have made and are making the required contributions to USF. However, should we at some time fail to meet certain requirements or fail to make required contributions, we could be subject to revocation of the Company’s authority to operate or to fines or penalties.

Some states have tried to directly regulate VoIP services on an intrastate basis, but these attempts have, so far, not held up to court challenges. Many states are holding hearings to research and discuss the issues surrounding the regulation of VoIP services. Others are encouraging or even requesting VoIP service providers to subject themselves to public service commission jurisdiction and obtain certification as telephone companies. However, most have adopted a “wait and see” attitude. We are monitoring the actions of the various state regulatory agencies, and doing our best to see that we are in compliance with the applicable regulations, including any new regulations that may be passed. However, there can be no assurance that we are fully aware of all applicable requirements or that we will always be fully compliant. Should we fail at any time to be compliant with applicable state regulations, or to file require reports to state regulatory agencies, we could be subject to fines or other penalties.

While we believe VoIP services may be subject to additional federal, state, local, or international regulation in the future, it is uncertain when or how the effects of such regulation could affect us. If additional regulation does occur, it is possible that such regulatory agencies may impose surcharges, taxes or regulatory fees on VoIP service providers. The imposition of any such surcharges, taxes, or regulatory fees could increase the Company’s costs and thus reduce or eliminate any competitive advantage that we might enjoy today.

Intellectual Property and Trademarks

We have several trademarks and service marks, all of which are of material importance to us.

The following trademarks and service marks are registered with the United States Patent Trademark Office; however, they are not registered at the international level:

- Fusion Telecom
- Efonica
- Efonica [logo]

Applications covering the following trademarks and service marks have been filed with the United States Patent Trademark Office and are currently in the registration process:

- Fusion
- Fusion Telecommunications International
- Diamond/Block Logo
- Diamond Logo

The telecommunications and VoIP markets have recently been characterized by substantial litigation regarding patent and other intellectual property rights. Litigation, which could result in substantial cost to and diversion of our efforts, may be necessary to enforce trademarks and/or service marks issued to us or to determine the enforceability, scope and validity of the proprietary rights of others. Adverse determinations in any litigation or interference proceeding could subject us to costs related to changing names, a loss of established brand recognition, or the need to change the technologies utilized in our services.

Employees

As of December 31, 2010, the Company had 56 full time employees. None of our employees are represented by a labor union or collective bargaining agreement. We consider our employee relations to be good, and, to date, we have not experienced a work stoppage.

All the Company's employees have signed confidentiality agreements, and it is our standard practice to require newly hired employees and, when appropriate, independent consultants, to execute confidentiality agreements. These agreements provide that the employee or consultant may not use or disclose confidential information except in the performance of his or her duties for the Company, or in other limited circumstances. The steps taken by us may not, however, be adequate to prevent the misappropriation of our proprietary rights or technology.

Revenues and Assets by Geographic Area

During the years ended December 31, 2010, and December 31, 2009, 86.7% and 93.3%, respectively, of the Company's revenue was derived from customers in the United States and 13.3% and 6.7%, respectively, was derived from international customers. As of December 31, 2010, and December 31, 2009, 0% of the Company's long-lived assets were located outside of the United States.

Available Information

We are subject to the informational requirements of the Securities Exchange Commission ("SEC") and, in accordance with those requirements, file reports, proxy statements and other information with the SEC. You may read and copy the reports, proxy statements and other information that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. Please call 1-800-SEC-0339 for information about the SEC's Public Reference Room. The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC. The address of the SEC's web site is http://www.sec.gov. The Company's web site is http://www.fusiontel.com. The information on the Company's website is neither a part of nor incorporated by reference into this report.

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 December 31, 2010, we had a working capital deficit of approximately ($9.7) million and a stockholders' deficit of approximately ($8.1) million. Although we have reduced our losses, we continue to sustain losses from operations and for the years ended December 31, 2010 and 2009, we incurred net losses applicable to common stockholders of approximately ($6.4) million and ($10.2) million, respectively. In addition, we did not generate positive cash flow from operations for the years ended December 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, 2010, 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 2010, the Company's carrier services revenue was negatively impacted not only by seasonal and economic market fluctuations, but also by a general decline in the overall market for international communications as a result of current economic conditions. We were also adversely affected by limits on our ability to provide extended payment terms to larger customers. We anticipate that these revenue growth constraints will be eased as the general economic conditions and the Company's financial condition improve, but there is no assurance that we will be successful in our efforts to increase revenues and margin contribution in this business segment.

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, in all likelihood, 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 that the terms under which we are able 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, these loans from our affiliates, as well as loans we have received from others, are collateralized by a security interest in our accounts receivable. In the event we are unable to generate sufficient funds from operations to satisfy our operating needs, we may require further loans from our affiliates or others. There is no assurance that our affiliates or others 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.

We have historically funded our cash flow requirements, in part, from the proceeds of loans evidenced by promissory notes. To the extent that term notes were not repaid on their stated maturity date, they were typically converted into demand notes, which may be called in the discretion of the note holders.

As of December 31, 2010, approximately $3.1 million of indebtedness was evidenced by such demand notes, of which our chairman, Marvin Rosen, held approximately $2.5 million. In addition, the holders of these notes have been granted a 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 switching systems, 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.

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 six 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, or of similar litigation that might be initiated by other companies against 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 or expose ourselves to liability, if there are any breaches to our network security systems that jeopardize or result in the loss of confidential information stored in our computer systems. Since our inception, we have experienced only two known breaches of network security, which resulted in a temporary failure of certain network operations, but neither breach resulted in any loss of confidential customer information or in any material financial loss. However, a future network security breach could harm our ability to deliver certain services, damage our reputation, or 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 and our financial results of operations will be adversely impacted thereby.

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. If we are not able to obtain necessary licenses or approvals, our ability to enter into new markets may be delayed or prevented.

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 authorized local telephone 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; greater financial, technical, operational, and marketing resources; and more 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, our ability to service an important market could be prevented or adversely affected.

Service interruptions due to disputes or other conditions over which we have no or little control 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 circumstances including disputes with vendors, acts of war, terrorism, acts of God or other issues, many of which are beyond our control. 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 or disruptions, 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 and/or regulatory agencies. While these regulatory agencies grant us the authority to operate our business, they typically exercise minimal control over our services and pricing. However, they do require the filing of various reports, compliance with public safety and consumer protection standards, and the payment of certain regulatory fees and assessments.

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

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

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

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

A large percentage of our carrier services revenues are provided by a limited number of customers. Specifically, our five largest customers accounted for approximately 53.8% and 66.4% of our revenues for the years ended December 31, 2010, and December 31, 2009, respectively. The terms of the customer’s agreements do not bind the customer's contractually to continue using our services and, if our business with these customers 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 19.9 million shares, or 14.9%, 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 37.6 million shares, or 26.1% 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.

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:

- Ability to obtain securities analyst coverage
- Changes in securities analysts' recommendations or estimates of our financial performance
- Changes in the market valuations of companies similar to us
- Announcements by us or our competitors of significant contracts, new offerings, acquisitions, commercial relationships, joint ventures, or capital commitments
- Failure to meet analysts' expectations regarding financial performance

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 SEC, which will make transactions in our shares cumbersome and may reduce the value of an investment in our shares.

For so long 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, in such event, trading in our common stock would be subject to the requirements of Rule 15g-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.

SEC 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.

To date, we have not been considered a "penny stock" due to an exemption from Rule 15g-9 for companies with average annual audited revenues for the prior three years of in excess of $6,000,000 per year. However, should the exclusions from the definition of a "penny stock" change, or should our annual revenues fall dramatically, we may become subject to rules applicable to "penny stocks" and the market for our shares may be adversely affected thereby.

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 132,010,498 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.

As of the date of this report, there were 31,736,267 shares of our common stock reserved for issuance in the event of exercise of outstanding options and warrants, conversion of outstanding preferred stock and issuance as dividends on the preferred stock, in the aggregate representing approximately 24% of our outstanding shares of common stock as of the date of this report.

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 7,295 shares of Series A-1, A-2 and 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
- 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 our stockholders and us.

Item 1B. Unresolved Staff Comments.

Not applicable to a smaller reporting company.

Item 2. Properties.

We are headquartered in New York, New York and lease offices and space in a number of locations. Below is a list of the Company's leased offices and space as of December 31, 2010.

Location	Lease Expiration	Annual Rent	Purpose	Approx. Sq. Ft.
420 Lexington Avenue, Suite 1718, New York, New York 10170	October 2015	$ 471,000	Lease of principal executive offices	9,000
75 Broad Street, New York, New York 10007	November 2015	$ 553,000	Lease of network facilities	9,274
1475 W. Cypress Creek Road, Suite 204, Fort Lauderdale, Florida 33309	August 2014	$ 139,000	Lease of network facilities and office space	9,716

We believe that the Company's leased facilities are adequate to meet our current needs and that additional facilities are available to meet the Company's development and expansion needs in existing and projected target markets.

Item 3. Legal Proceedings.

On July 30, 2008, a vendor that provides management consulting and software systems services filed a complaint in the Supreme Court for 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 (the "PSLA") and a Master Software License Agreement (the "MSLA"). This complaint asserted claims for relief against the Company for breach of contract, failure to pay to plaintiff moneys allegedly due under the terms of the PSLA, violation of the terms of the MSLA, and prejudgment interest and costs. On September 17, 2008, the Company filed its Answer and 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 damages, including full repayment of the amounts which the Company paid to the plaintiff for its failed development effort. On June 25, 2010, the parties entered into a Confidential Settlement Agreement resolving the litigation, providing for the mutual release of all claims, and agreeing to the dismissal of the case. Further proceedings have been stayed pending payment of the Company's obligations under the agreement, the amount of which is not considered material. To date, the Company has complied with its payment obligations.

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. On October 23, 2009, the Company filed its Answer and Counterclaim, 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 certain products and services that included the GIPS software. On June 1, 2010, the parties entered into a Confidential Settlement Agreement resolving the litigation, and providing for the payment of certain amounts to GIPS, the amount of which was not considered material, and the exchange of mutual releases. The Company paid the amounts due under the agreement and the proceeding was dismissed "with prejudice".

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. The Company has completed its payment obligations to the landlord under the stipulation, including the amendments thereto. The proceeding has been discontinued through the filing of a stipulation discontinuance, and the warrant of eviction has been vacated.

On June 14, 2010, three individuals filed an action against a former customer of the Company and other associated persons, and against the Company, in New York State Court, County of Kings (Index No. 24255/09). The plaintiffs alleged that the non-Fusion defendants accepted funds from the plaintiffs for investment in real estate, but subsequently used some or all of those funds for other purposes. The plaintiffs further alleged that the non-Fusion defendants made certain payments to the Company and they seek repayment of those sums from the Company in the amount of $237,913 plus interest. The Company believes that the plaintiffs' claims are without merit as the bank account information provided by the plaintiffs themselves shows that the majority of the funds allegedly paid to the Company were actually paid to other non-affiliated entities. Moreover, those funds that were received by the Company from the non-Fusion defendants were payment for specific telecommunications equipment and services purchased by the non-Fusion defendants from the Company, and the Company had no knowledge of any alleged misuse of funds by the non-Fusion defendants. The Company has prepared and filed its answer to the complaint, and intends to vigorously defend itself. As 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, no adjustment has been made in the Company's accompanying consolidated financial statements because of this claim.

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 any such claims or actions will have a material effect on the Company's operations or financial condition. In addition, due to the regulatory nature of the telecommunications industry, the Company periodically receives and responds to various inquiries from state and federal regulatory agencies. Management does not expect the outcome of any such regulatory inquiries to have a material impact on the Company's operations or financial condition.

Item 4. (Removed and Reserved).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Market Information

Our common stock is currently listed on the OTCBB™ under the symbol "FSNN". From February 2005 until June 2009, our common stock and redeemable common stock warrants were listed on the NYSE Amex Stock Exchange under the symbols "FSN" and "FSN.WS". Our redeemable common stock purchases warrants expired on February 17, 2010, and are no longer quoted for trading. Prior to February 15, 2005, there was no established trading market for the Company's common stock and redeemable common stock warrants.

The following tables list the high and low sales prices for the Company's common stock for each fiscal quarter during the two preceding fiscal years as reported by the NYSE Amex Stock Exchange (f/k/a the American Stock Exchange) and the OTCBB™, as the case may be.

Common Stock

Year Ended December 31, 2010	High	Low
First Quarter	$ 0.16	$ 0.10
Second Quarter	$ 0.24	$ 0.10
Third Quarter	$ 0.19	$ 0.10
Fourth Quarter	$ 0.13	$ 0.07

Year Ended December 31, 2009	High	Low
First Quarter	$ 0.24	$ 0.05
Second Quarter	$ 0.30	$ 0.01
Third Quarter	$ 0.20	$ 0.07
Fourth Quarter	$ 0.20	$ 0.11

The following tables list the high and low quarterly sales prices for the Company's formerly publicly traded Redeemable Common Stock Purchase Warrants that expired on February 17, 2010.

Redeemable Common Stock Purchase Warrants

Year Ended December 31, 2010	High	Low
First Quarter (January 1, 2010 - February 17, 2010)	$ 0	$ 0

Year Ended December 31, 2009	High	Low
First Quarter	$ 0.025	$ 0
Second Quarter	$ 0.01	$ 0
Third Quarter	$ 0	$ 0
Fourth Quarter	$ 0.015	$ 0

The market price for the Company's common stock is highly volatile and fluctuates in response to a wide variety of factors.

Holders of Record

As of February 23, 2011, there were approximately 430 shareholders of record of the Company's common stock.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance our operations, and to expand our business. Subject to the rights of holders of preferred stock, any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our board of directors considers appropriate.

The holders of the Company's Series A-1, A-2, and A-4 Preferred Stock are entitled to receive cumulative dividends of 8% per annum payable in arrears, as declared by the Company's board of directors, on January 1 of each year, commencing on January 1, 2008. The board of directors has not declared any dividends on the Series A-1, A-2, or A-4 Preferred Stock.

Issuer Purchases of Equity Securities

There have been no purchases of equity securities by the Company required to be disclosed in response to this Item.

Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities that are required to be disclosed in response to this Item.

Item 6. Selected Financial Data.

This item is not applicable to smaller reporting companies

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of the Company's financial condition and results of operations should be read together with the Company's consolidated financial statements and the related notes thereto included in another part of this Annual Report. This discussion contains certain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, which involve substantial risks and uncertainties. When used in this report the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to the Company's management or us are intended to identify such forward-looking statements. The Company's actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

Overview

We are an international telecommunications carrier delivering value-added communications solutions to corporations and carriers in the United States and throughout the world. We offer services that include traditional voice and data communications services using Voice over Internet Protocol (VoIP), private network services, broadband and Internet access, and other advanced services.

The Company's corporate business segment focuses on small, medium, and large corporations headquartered in the United States, but with the ability to serve their global communications needs and to provide service virtually anywhere in the world. The Company's carrier business segment focuses on carriers across the globe, with a particular focus on providing services to and from emerging markets in Asia, the Middle East, Africa, Latin America, and the Caribbean.

The following table summarizes the Company's results of operations for the periods indicated:

	Years Ended December 31,	
	2010	2009
Revenues	$ 41,763,002	$ 40,938,615
Operating expenses:		
Cost of revenues	37,830,121	37,553,727
Depreciation and amortization	847,881	1,361,798
Loss on impairment of long-lived assets	19,018	243,000
Selling, general and administrative expenses	8,847,474	9,216,292
Advertising and marketing	38,973	42,705
Total operating expenses	47,583,467	48,417,522
Operating loss	(5,820,465)	(7,478,907)
Other income (expense):		
Interest income	491	4,233
Interest expense	(181,205)	(387,460)
Gain on settlements of debt	159,500	12,758
Other	54,456	(62,043)
Total other income (expense)	33,242	(432,512)
Income (loss) from continued operations	(5,787,223)	(7,911,419)
Discontinued operations:		
Income (loss) from discontinued operations	(12,257)	(1,674,793)
Net loss	$ (5,799,480)	$ (9,586,212)

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

	Years Ended December 31, 2010	2009
Revenues	100.0%	100.0%
Operating expenses:		
Cost of revenues	90.6%	91.7%
Depreciation and amortization	2.0%	3.3%
Loss on impairment of long-lived assets	0.0%	0.6%
Selling, general and administrative expenses	21.2%	22.5%
Advertising and marketing	0.1%	0.1%
Total operating expenses	113.9%	118.2%
Operating loss	-13.9%	-18.2%
Other income (expense):		
Interest income	0.0%	0.0%
Interest expense	-0.4%	-0.9%
Gain on settlements of debt	0.4%	0.0%
Other	0.1%	-0.2%
Total other income (expense)	0.1%	-1.1%
Income (loss) from continued operations	-13.8%	-19.3%
Discontinued operations:		
Income (loss) from discontinued operations	-0.0%	-4.1%
Net loss	-13.8%	-23.4%

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 will 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 net revenue less the cost of revenue, and on net profitability. Although the Company's infrastructure is largely built to support all business segments and products, many of the infrastructure costs can be specifically associated with one of our two business segments. This also applies to most capital investments made (such as switching and transmission equipment), and to the majority of our selling, general and administrative expenses. The majority of the Company's operations, engineering, information systems, and finance personnel are assigned to either the corporate or carrier business segment for cost purposes, and only a small number of personnel are considered "overhead" and allocated to the segments as appropriate. For segment reporting purposes, common overhead expenses are generally 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.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Revenues

Consolidated revenues were $41.8 million during the twelve months ended December 31, 2010, compared to $40.9 million during the twelve months ended December 31, 2009, an increase of $0.9 million or 2.2%.

Revenues for the carrier services segment were $40.0 million during the twelve months ended December 31, 2010, compared to $39.9 million during the twelve months ended December 31, 2009, an increase of $0.1 million or 0.3%. While the actual number of minutes transmitted over our network decreased, a significant increase in the blended rate per minute of the traffic terminated provided a slight overall increase in revenue.

Revenues for the corporate services segment increased $0.7 million, or 63.6%, to $1.8 million during the twelve months ended December 31, 2010, from $1.1 million during the twelve months ended December 31, 2009. This increase was the result of an increase in the Company's corporate services business due to continued sales and marketing efforts to grow the corporate customer base.

Cost of Revenues

Consolidated cost of revenues was $37.8 million during the twelve months ended December 31, 2010, compared to $37.6 million during the twelve months ended December 31, 2009, an increase of $0.2 million or 0.5%.

Cost of revenues for Carrier Services was $36.7 million during the twelve months ended December 31, 2010, compared to $37.0 million during the twelve months ended December 31, 2009. The decrease of $0.3 million or 0.8% in cost of revenues resulted from continuing efforts to decrease the average cost per minute of traffic and increase the average gross margin of the carrier segment.

Cost of revenues for corporate services segment during the twelve months ended December 31, 2010 was $1.1 million, compared to $0.6 million during the twelve months ended December 31, 2009, an increase of $0.5 million, or 83.3%. The increased costs were directly attributable to the larger customer base that existed during the twelve months ended December 31, 2010, compared to the same period in 2009, and were consistent with the corporate segment's increase in revenues.

Gross Margin

The consolidated gross margin percentage for 2010 was 9.4% compared to 8.3% for 2009, with the increase resulting from both the increased percentage of our revenues derived from the higher margin corporate services segment, as well as the improved gross margin performance of the carrier services segment.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization decreased by $0.5 million or 38.5% to $0.8 million during the twelve months ended December 31, 2010, from $1.3 million during the twelve months ended December 31, 2009. The Company's depreciation expense decreased as there were more existing assets that were fully depreciated during 2010 than there were mew assets placed into service during the year.

Loss on Impairment

Impairment losses decreased by $224,000 or 92.2% during the twelve months ended December 31, 2010, compared to the same period in 2009, as there were no further impairments to the Company's trademarks during 2010.

Selling, General and Administrative

Selling, general, and administrative expenses decreased $0.4 million or 4.3% during the twelve months ended December 31, 2010. This decrease resulted from reduced legal and professional fees, communications expenses, occupancy costs, and travel and entertainment expenses, as the Company continued to focus on cost containment.

Advertising and Marketing

Advertising and marketing expenses decreased $4,000 or 9.3% during the twelve months ended December 31, 2010, compared to the same period in 2009. This slight decrease was consistent with the Company's continued cost containment efforts.

Operating Loss

The Company's operating loss decreased $1.7 million or 22.7% to a loss of $(5.8) million during the twelve months ended December 31, 2010, from a loss of $(7.5) million during the twelve months ended December 31, 2009. The decrease in operating loss was primarily attributable to increased margins in the carrier services segment, a greater contribution from the higher margin corporate services segment, and lower selling, general, and administrative expenses.

Other Income (Expense)

Total other income (expense) decreased by $466,000 or 107.6% from an expense of $433,000 for the twelve months ended December 31, 2009, to an income of $33,000 during the same period in 2010.

Discontinued Operations

Loss from discontinued operations decreased by approximately $1.6 million, or 99.3% to $(12,000) during the twelve months ended December 31, 2010, from $(1.7) million during the twelve months ended December 31, 2009. This decrease was the result of the Company's substantial completion during early 2010 of the restructuring initiated in the first quarter of 2009 to eliminate its consumer business.

Net Loss

Net loss decreased $3.8 million, or 39.6% to $(5.8) million during the twelve months ended December 31, 2010, from $(9.6) million during twelve months ended December 31, 2009. The main factors contributing to this decrease were increased margins in the carrier services segment, a greater contribution from the higher margin corporate services segment, decreased 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 yet generating positive cash flow from operation. At this time, Management cannot predict whether or not the Company will have sufficient cash and other financial resources to fund operations and meet its obligations for the next twelve months. As of December 31, 2010, we had stockholders’ equity deficit of approximately ($8.1) million in comparison to ($7.3) million at December 31, 2009, and a working capital deficit of approximately ($9.7) million in comparison to working capital deficit of ($9.4) million at December 31, 2009.

During the twelve months ended December 31, 2010, the Company raised approximately $3.6 million from the sale of its securities through private placement financings, and, in conjunction with revenues generated from operations and debt financing, management expects to continue to rely on such sales of securities to support its operations and to meet the Company’s financial obligations. During the twelve months ended December 31, 2010, the Company also borrowed $1,958,000, including $1,708,000 from a director Marvin Rosen. There are no current commitments for such funds in 2011, and there can be no assurance that such funds will be available to the Company.

Management is also seeking to supplement the funds available from the sale of its securities and from its borrowings with the financing of its accounts receivable or other similar financing arrangements, in order to further address the Company’s short-term liquidity challenge. For the long-term, management seeks to continue to grow both the corporate and carrier segments of its business in order to ultimately achieve positive cash flow. The Company will also consider seeking strategic partners and/or acquisition candidates that will be accretive to earnings and offer synergies that will assist in achieving revenue growth and profitability.

In the event that the Company is unable to secure the necessary funding to meets its working capital requirements, either through the sale of its securities or through other financing arrangements, the Company may be required to downsize, reduce its workforce, sell assets, or possibly curtail or even cease operations.

Below is a summary of our cash flows 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.

The summary of the Company's cash flows for the periods indicated is as follows:

	Year Ended December 31,	
	2010	2009
Cash from continuing operations:		
Cash used in operating activities	$ (5,034,202)	$ (6,398,409)
Cash provided by (used in) investing activities	(330,764)	(24,776)
Cash provided by financing activities	5,386,503	5,863,864
Increase (decrease) in cash and cash equivalents from continuing operations	21,537	(559,321)
Cash from discontinued operations:		
Cash provided by (used in) operating activities of discontinued operations	(100,186)	230,907
Net increase (decrease) in cash and cash equivalents from discontinuing operations	(100,186)	230,907
Net increase (decrease) in cash and cash equivalents from continuing and discontinuing operations	(78,649)	(328,414)
Cash and cash equivalents, beginning of period	99,019	427,433
Cash and cash equivalents, end of period	$ 20,370	$ 99,019

Sources of Liquidity

As of December 31, 2010, we had cash and cash equivalents of approximately $20,000, and accounts receivable of approximately $2.7 million. In addition, as of December 31, 2010, we had approximately $533,000 of cash restricted from withdrawal and held by banks as certificates of deposits securing letters of credit.

From our inception through December 31, 2010, we have financed our operations from operating revenues and cash provided from financing activities. These activities provided net proceeds of approximately $23.3 million from the Company's initial public offering (the "IPO"), approximately $71.1 million from the private placement of equity securities, approximately $1.6 million from the exercise of stock options and warrants, and approximately $31.5 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, $224,000 during 2010 and $55,000 during 2009. The Company expects cash capital expenditures to be approximately $350,000 for the year ending December 31, 2011. The 2011 estimated capital expenditures primarily consist of additional infrastructure development for the carrier services and corporate services segments.

Cash used in operations was approximately $5.0 million and $6.4 million during the twelve months ended December 31, 2010, and December 31, 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 December 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

From September 2009 through March 30, 2010, the Company sold 31,320,083 shares of common stock for which proceeds of approximately $5.0 million were received, net of expenses of approximately $5,000. 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 an agreement with a financial services company to act as a placement agent and financial advisor to arrange the sale of equity securities on behalf of the Company. The Company 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 to issue warrants to purchase a number of shares of the Company's common stock equal to 10% of the number of shares sold in the offering. Through September 30, 2010, the Company sold 31,428,603 shares of common stock for which proceeds of approximately $3.1 million were received, net of expenses of approximately $568,000. In addition, the Company issued five year investor warrants to purchase 7,857,158 shares of common stock at an exercisable price of 125% of the closing price of the Company's common stock, and additional five year investor warrants to purchase 7,857,158 shares of common stock at an exercisable price of 150% of the closing price of the Company's common stock. The placement agent was paid commissions aggregating $528,000 and was issued placement agent warrants to purchase an aggregate of 3,142,862 shares of common stock equal to 10% of the number of shares sold, at an exercisable price of 125% of the closing price of the Company's common stock.

Summary of Contractual Obligations

As of December 31, 2010:

	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years	Total
Contractual obligations:					
Debt maturing within one year	$ 3,104,495	$ -	$ -	$ -	$ 3,104,495
Capital leases	4,550	-	-	-	4,550
Operating leases	967,022	2,198,596	1,990,435	-	5,156,053
Total contractual cash obligations	$ 4,076,067	$ 2,198,596	$ 1,990,435	$ -	$ 8,265,098

Critical Accounting Policies and Estimates

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, 2010, included in this 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

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 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.

Inflation

We do not believe inflation has a significant effect on the Company's operations at this time.

Off Balance Sheet Arrangements

Under SEC regulations, we are required to disclose the Company's off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

- Any obligation under certain guarantee contracts
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets
- Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to the Company's stock and classified in stockholder's equity in the Company's statement of financial position
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us

As of December 31, 2010, the Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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 service 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 7A. Quantitative and Qualitative Disclosures about Market Risk.

Disclosure under this section is not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

The Company's consolidated financial statements required by this Item are included in Item 15 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedure

Evaluation of Disclosure 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 (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 the Company's management, including the Company's Chief Executive Officer and President, 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 President, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2010. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and President concluded that the Company's disclosure controls and procedures were effective to accomplish their objectives. Our Chief Executive Officer and President 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 the Company's stated goals under all potential future conditions. There have been no changes in our internal control over financial reporting that occurred during our fiscal year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Fusion's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on the assessment using those criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2010. This annual report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting as management's report was not subject to attestation by the Company's registered public accounting firm.

Changes in Internal Control over Financial Reporting

There was no change in the internal control over financial reporting that occurred during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The members of the Company's board of directors and the Company's executive officers, together with their respective ages and certain biographical information are set forth below, along with, in the case of directors, a description of the qualifications that led the board to conclude that the individual should serve as a director:

Name	Age	Position
Marvin S. Rosen	70	Chairman of the Board
Philip D. Turits	77	Secretary, Treasurer and Director
Matthew D. Rosen	38	Chief Executive Officer and Director
E. Alan Brumberger	70	Director
Julius Erving	60	Director
Evelyn Langlieb Greer	60	Director
Paul C. O'Brien	71	Director
Michael J. Del Giudice	67	Director
Gordon Hutchins, Jr.	61	President, Chief Operating Officer, and Acting Chief Financial Officer
Jan Sarro	56	Executive Vice President - Corporate Services

Board of Directors and Executive Officers

Marvin S. Rosen, Chairman of the Board

Mr. Rosen co-founded the Company in 1997. He has served as the Chairman of the Board of Directors since November 2004, Chairman of our Executive Committee since September 1999, Vice Chairman of the Board of Directors from December 1998 to November 2004 and has been a member of our board since March 1998. He served as our Chief Executive Officer from April 2000 until March 2006. In 1983 he joined the international law firm of Greenberg Traurig as a partner specializing as a corporate securities lawyer active in many public offerings and private placements. He remained an active practicing lawyer until 2000. At that point he became inactive and remained of counsel until early 2009. Mr. Rosen was Finance Chairman for the Democratic National Committee from September 1995 until January 1997. Since 2006, he has been a principal with Diamond Edge Capital Partners, L.L.C. Mr. Rosen currently serves on the board of directors of the Robert F. Kennedy Memorial and Terremark Worldwide, Inc. and previously was Budget and Finance Chairman for the Summit of the Americas and Chairman of the Florida Housing Finance Agency. The board believes that Mr. Rosen's background as the co-founder and former CEO of the Company, as a principal with a financial services firm, as a securities lawyer, and as corporate director provides him with the qualifications to lead the board and to advise the board on key strategic and tactical matters. Mr. Rosen's son, Matthew, is our current Chief Executive Officer, and serves on our board of directors.

Philip D. Turits, Secretary, Treasurer, and Director

Mr. Turits co-founded the Company in 1997, and has served as a director since September 1997. He is currently the Treasurer and Secretary of the Company, positions he has held since 1997 and 1998, respectively. From September 1991 to February 1996, Mr. Turits served as Treasurer and Chief Operating Officer for Larry Stuart, Ltd., a consumer products company. Prior to 1991, he served as President and Chief Executive Officer of Continental Chemical Company. The board believes that Mr. Turits background as the co-founder and Secretary/Treasurer of the Company, and as a corporate CEO/COO and director, provides him with the operational, financial, and leadership qualifications to provide valuable guidance to management and the other directors, particularly in the financial aspects of the telecommunications business.

Matthew D. Rosen, Chief Executive Officer and Director

Mr. Rosen has served as a director since May 2005 and has been our Chief Executive Officer since March of 2006. He served as our President from March 2006 until March 2008, and Chief Operating Officer from August 2003 to March 2006, Executive Vice President and Chief Operating Officer between February 2002 and August 2003, Executive Vice President and President of Global Operations between November 2000 and January 2002 and as President of U.S. Operations between March 2000 and November 2000. From 1998 to 2000, he held various management positions including President of the Northwest and New England Operations for Expanets, an integrated network communications service provider with annual revenues of approximately $1.3 billion. From 1996 to 1998 he was Corporate Director of Operations for Oxford Health Plans, a major health care company with annual revenues of approximately $4 billion, where he worked on developing and executing turnaround strategies. Prior to his role as Corporate Director of Operations, Mr. Rosen held an executive position in a start-up healthcare technology subsidiary of Oxford where he played an integral part in developing strategy and building its sales, finance and operations departments. Prior to Oxford, Mr. Rosen was an investment banker in Merrill Lynch's corporate finance department. The board believes that Mr. Rosen's background as the current CEO and former COO of the Company, as a senior executive in telecommunications, as an experienced operations executive, and as an investment banker provides him with the qualifications to lead the Company and to advise the board on all aspects of the Company's business. Mr. Rosen is the son of our Chairman of the Board, Marvin Rosen.

E. Alan Brumberger, Director

Mr. Brumberger has served as a director since March 1998. Currently, Mr. Brumberger is the Chief Executive Officer of Diamond Edge Capital Partners, L.L.C., where he has been a principal since 2006. He formerly was a partner in Andersen & Co. and its predecessor firms, from 1997 to 2004. From 1995 through 1997, he was a Managing Director of the Taylor Companies and from 1994 through 1995, a Managing Director of Brenner Securities, Inc. From 1983 through 1990, Mr. Brumberger was a Managing Director of Drexel Burnham Lambert and a member of the Underwriting and Commitment Committees. Prior to that, he was a Managing Director of Shearson American Express and a partner at Loeb, Rhoades & Co., a predecessor of Shearson American Express. Mr. Brumberger served for three years as President and Chief Executive Officer of Shearson American Express International Limited, the firm's international investment banking business in London. The board believes that Mr. Brumberger's background as the current CEO of a financial services firm, as an experienced leader in the finance and securities industry, as a partner in a public accounting firm, and as an investment banker provides him with the qualifications to provide important input and direction to management and the board on financial matters.

Julius Erving, Director

Mr. Erving has served as a director since June 2003. He is the President of the Erving Group, and has served in that role since 1979. Mr. Erving was also employed by the National Broadcasting Company between December 1994 and June 1997, and by the National Basketball Association between 1987 and September 1997. He is a former director of Saks, Incorporated, Darden Restaurants, and The Sports Authority. Mr. Erving is also a Trustee of the Basketball Hall of Fame. The board believes Mr. Erving's unique background as a leader in broadcasting, sports management, and professional sports, as well as his prior service as a corporate director for companies in telecommunications and other industries, provides him with the qualifications to provide valuable guidance to executive management and the board.

Evelyn Langlieb Greer, Director

Ms. Greer has served as a director since January 1999. Since 1976, she has been the President of Greer Properties, Inc., a Florida-based commercial real estate development company, which develops and operates shopping centers. Ms. Greer is also a partner in the law firm of Hogan, Greer & Shapiro, P.A. Ms. Greer serves on the board of directors and executive committee of the Adrienne Arsht Performing Arts Center of Miami-Dade County, on the board of Teachers for America-Miami, on the board of Our Kids, Inc. and as a member of the Miami-Dade Cultural Affairs Council. She is Vice Chair of the Columbia Law School Board of Visitors, was a director of City National Bank of Florida, N.A. from 2000 to 2008 and was a member of the Board of Trustees of Barnard College from 1994 to 2004. From 2004 to 2008, Ms. Greer was an elected member of the Miami-Dade County School Board, the 4th largest school system in the United States, and from 1996-2004 she served as the first Mayor of the Village of Pinecrest, Florida. The board believes that Ms. Greer's background as president of a commercial real estate firm, as an attorney, as an elected official, and as a director of both corporations and non-profits provides her with the qualifications to provide unique insights to the Company's board and executive management in the areas of general business, operations, and law.

Paul C. O'Brien, Director

Mr. O'Brien has served as a director since August 1998. Since January 1995, Mr. O'Brien has served as the President of the O'Brien Group, Inc., a consulting and investment firm. From February 1988 until December 1994, he was the President and Chairman of New England Telephone, (a subsidiary of NYNEX), a telecommunications company. Mr. O'Brien serves on the boards of directors for Astrobotics and Safecore, and serves as chairman of both boards. He is also on the advisory board of Sovereign Bank. The board believes that Mr. O'Brien's background as president of a consulting and investment firm, as chairman of a major telecommunications enterprise, and as an experienced corporate director provides him with the qualifications to advise the Company on telecommunications matters, as well as matters related to operations, finance, and leadership.

Michael J. Del Giudice, Director

Mr. Del Giudice has served as a director since November 2004. He is a Senior Managing Director of Millennium Capital Markets LLC and Senior Managing Director of MCM Securities LLC, both of which he co-founded in 1996. Mr. Del Giudice also serves as Chairman of Rockland Capital LLC, founded in April 2003. Mr. Del Giudice is a member of the board of directors of Consolidated Edison, Inc., and is chairman of its Governance and Nominating Committee and Lead Director of the board. Until September 2010, Mr. Del Giudice served as a member and the Lead Director of board of Barnes & Noble, Inc. He is also a member of the Board of Trustees of the New York Racing Association, and serves as Chairman of the Governor's Committee on Scholastic Achievement. Mr. Del Giudice was a General Partner at Lazard Freres & Co. LLC from 1985 to 1995. From 1983 to 1985, he was Chief of Staff to New York Governor Mario M. Cuomo. He served from 1979 to 1981 as Deputy Chief of Staff to Governor Hugh L. Carey, and from 1975 to 1979 as Chief of Staff to the Speaker of the Assembly. The board believes that Mr. Del Giudice's background as a principal in securities and investment firms, as an investment banker, as Chief of Staff to the Governor, and as an active corporate director provides him with the qualifications to provide critical advice to executive management and the board on business, financial, and leadership matters.

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

Mr. Hutchins has served as President and Chief Operating Officer since March 2008, and Acting Chief Financial Officer since January 15, 2010. Mr. Hutchins served as our Executive Vice President from December 2005 to March 2008. Prior to his employment with Fusion, Mr. Hutchins served as President and Chief Executive Officer of SwissFone, Inc., a Washington, D.C. based international telecommunications carrier. Prior to SwissFone, Mr. Hutchins was President and Chief Executive Officer of STAR Telecommunications, Inc., a major international telecommunications carrier with over $800 million in annual revenue, where he was hired to lead the company's restructuring following the filing of its bankruptcy petition. Mr. Hutchins has also served since 1989 as President and CEO of GH Associates, Inc., a management-consulting firm that he founded. In this capacity, he has consulted with over 100 small and large telecommunications companies throughout the world, and has held ten interim CEO/COO roles with client companies. As an entrepreneur, Mr. Hutchins also founded Telecom One, Inc., a nationwide long distance carrier that he sold to Broadwing Communications Inc., and TCO Network Services, Inc., a local wireless services carrier purchased by Winstar Communications, Inc. During his early career, Mr. Hutchins served as President and CEO of LDX NET, Inc., a fiber optic network company, and held positions with MCI, McDonnell Douglas Corporation, and AT&T.

Jan Sarro, Executive Vice President - Corporate Services

Ms. Sarro has served as Executive Vice President – Corporate Services since March 2008. Ms. Sarro served as the Executive Vice President of Carrier Services from April 2005 to March 2008, and as Vice President of Sales and Marketing since March 2002. Prior to joining us, Ms. Sarro was the President of the Americas for Viatel, Inc., a global, facilities-based communications carrier and has over 20 years of experience in developing telecommunications solutions for international businesses and carriers worldwide. At Viatel, Ms. Sarro grew annual carrier revenues from $20 million to $160 million in under two years, and built a $140 million sales organization to market Internet access, corporate networks, and international voice services to multinational corporations in the United States and Latin America. Ms. Sarro has also held senior executive marketing and sales management positions at Argo Communications, the international record carriers, FTC Communications and TRT Communications, and WorldCom.

Board of Directors

The board of directors oversees our business affairs and monitors the performance of management. In accordance with our corporate governance principles, the board of directors does not involve itself in day-to-day operations. The directors keep themselves informed through discussions with the Chief Executive Officer and our other executive officers and by reading the reports and other materials that we send them and by participating in board of directors and committee meetings. If any director resigns, dies or is otherwise unable to serve out his or her term, or if the board increases the number of directors, the board may fill any vacancy by a vote of a majority of the directors then in office. A director elected to fill a vacancy shall serve for the unexpired term of his or her predecessor. Vacancies occurring by reason of the removal of directors without cause may only be filled by vote of the stockholders.
The Company's bylaws provide that the number of members of the Company's board shall be not less than seven (7) nor more than seventeen (17) and that a director's term extends from the date of his or her election at each Company's Annual Meeting of Stockholders, until the Company's next Annual Meeting of Stockholders.
There are currently eight (8) directors on the board. During 2010, Mr. Christopher D. Brady resigned due to other business commitments.

Committees of the Board

The board has established a Compensation and Nominating Committee, a Strategic and Investment Banking Committee, and an Audit Committee (collectively the "Committees") to devote attention to specific subjects and to assist the board in the discharge of its responsibilities. The functions of the Committees and their current members are set forth below:

Compensation and Nominating Committee

The functions of our Compensation and Nominating Committee (the "Compensation Committee") are (i) to review and recommend to our board of directors, compensation and equity plans, as well as compensation policies and programs, and approve executive officer compensation; and (ii) to review and recommend to our board of directors the nominees for election as directors of the Company, and to review related board of directors development issues including succession planning and evaluation. The members of our Compensation Committee are Michael J. Del Giudice (Chairman), Paul C. O'Brien, and Julius Erving, each of whom is a non-employee member of our board. Our board has determined that each of the directors serving on our Compensation Committee is independent within the existing standards of the NYSE Amex LLC Company Guide. The charter of our Compensation Committee is posted on our website (www.fusiontel.com), and a copy of the charter can also be obtained by contacting our Corporate Secretary. The information on our website is neither incorporated by reference nor a part of this report.

The Compensation Committee has not established any procedures for the recommendation or selection of director nominees by our stockholders. While the Company believes stockholder input is valuable and therefore intends to consider a procedure for stockholders to propose director nominees for the Company's board, the board has deferred adopting such a procedure pending a final ruling by the SEC on their Proposed Rule 14a-11, which proposes specific requirements to facilitate director nominations by stockholders (that may, among other things, prohibit stockholders from adopting a bylaw that opts out of the Proposed Rule 14a-11 regime, even if desired by stockholders). The Compensation Committee held one meeting during 2010.

Strategic and Investment Banking Committee

The members of our Strategic and Investment Banking Committee (the "Strategic Committee") are Marvin S. Rosen (Chairman), E. Alan Brumberger, Michael Del Giudice, and Philip D. Turits. Our Strategic Committee evaluates and recommends investment strategies with investment banks and brokerage houses and assists in the evaluation of possible acquisitions and mergers. There is not a written charter for the Strategic Committee; rather, the Strategic Committee receives its instructions from the board of directors.

Audit Committee

The primary function of the Audit Committee is to assist the board of directors in its oversight of our financial reporting processes. Management is responsible for the preparation, presentation and integrity of the financial statements, including establishing accounting and financial reporting principles and designing systems of internal control over financial reporting. Our independent auditors are responsible for expressing an opinion as to the conformity of our consolidated financial statements with generally accepted accounting principles and auditing management's assessment of the effectiveness of internal control over financial reporting. The members of our Audit Committee are Paul O'Brien (Chairman), Michael Del Giudice, and Julius Erving, each of whom is a non-employee member of our board. Our board has determined that each of the directors serving on our Audit Committee is independent within the existing standards of the NYSE Amex LLC Company Guide. The charter of our Audit Committee is posted on our website (www.fusiontel.com), and a copy of the charter can also be obtained by contacting our Corporate Secretary. The information on our website is neither incorporated by reference nor a part of this report.

With respect to the year ended December 31, 2010, in addition to its other work, the Audit Committee:

- Reviewed and discussed with management and Rothstein, Kass & Company, P.C., our independent registered public accounting firm, our audited consolidated financial statements as of December 31, 2010 and the year then ended;
- Discussed with Rothstein, Kass & Company, P.C., the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended, with respect to its review of the findings of the independent registered public accounting firm during its examination of our financial statements; and
- Received from Rothstein, Kass & Company, P.C., written affirmation of its independence as required by the Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees". In addition, the Audit Committee discussed with Rothstein, Kass & Company, P.C., its independence and determined that the provision of non-audit services was compatible with maintaining auditor independence.

The Audit Committee recommended, based on the review and discussion summarized above, that the board of directors include the audited consolidated financial statements in the 2010 Form 10-K for filing with the SEC.

Code of Ethics

On November 1, 2004, we adopted a Code of Ethics applicable to all members of our board, executive officers, and senior financial officers. A copy of our Code of Ethics is posted on our website (www.fusiontel.com). Disclosure of amendments to or waivers from, provisions of the Code of Ethics will be publicly disclosed in accordance with applicable rules and regulations, and will be posted on the Company's web-site. The information on our website is neither incorporated by reference nor a part of this report.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 (a) of the Exchange Act requires disclosure from every person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of any equity security (other than an exempted security) which is registered pursuant to Section 12, or is a director or an officer of the issuer of such security, by filing the statements required by Section 16 of the Exchange Act.

Based solely upon the Company's review of Forms 3 and 4 and amendments thereto furnished to us during or with respect to our most recent fiscal year, and Forms 5 and amendments thereto furnished to us with respect to our most recent fiscal year any written representation from a reporting person (as defined in Item 405 of Regulation S-K) that no Form 5 is required, no reporting person failed to timely file reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior years.

Item 11. Executive Compensation.

Executive Officers Summary Compensation Table

The following table summarizes all compensation recorded by us in each of the last two completed fiscal years for (i) our Principal Executive Officer, (ii) our two most highly compensated executive officers (other than our Principal Executive Officer), who were serving as such on December 31, 2010, and whose annual compensation exceeded $100,000 and (iii) up to one additional individual for whom disclosure would have been required but for the fact that the individual was not serving as an executive officer at December 31, 2010. The value attributable to any option awards is computed in accordance with FAS 123R.

Name and Principal Position	Year	Salary (1) ($)	Bonus (1) ($)	Option Awards (2) ($)	All Other Compensation (3) ($)	Total ($)
Matthew D. Rosen	2010	$ 350,000	$ -	$ 43,832	$ 3,121	$396,953
CEO	2009	$ 350,000	$ -	$ 143,379	$ 3,157	$496,536
Gordon Hutchins, Jr.	2010	$ 220,000	$ -	$ 24,185	$ 351	$244,536
President, COO, and Acting CFO	2009	$ 220,000	$ -	$ 59,392	$ 387	$279,779
Jan Sarro	2010	$ 155,000	$ -	$ 11,738	$ 351	$167,089
Executive VP - Corporate Services	2009	$ 155,000	$ -	$ 19,283	$ 387	$174,670

(1) Included in these columns are amounts earned, though not necessarily received, during the corresponding fiscal year.

(2) This column reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, for option awards pursuant to the Company's 1998 and 2009 Stock Option Plans, and may include amounts from awards granted both in and prior to 2010. The value attributable to option awards is computed in accordance with FASB ASC Topic 718, and the assumptions made in the valuations of the option awards are included in Note 2 (Summary of Significant Accounting Policies – Stock Based Compensation) of the notes to our financial statements for the year ended December 31, 2010, appearing elsewhere in this Annual Report on Form 10-K. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(3) Represents life insurance.

Employment Agreements, Termination of Employment and Change-In-Control Arrangement

We currently have a written employment agreement with Mr. Matthew Rosen, our Chief Executive Officer. Mr. Rosen's employment agreement was initiated on November 11, 2004, and amended on March 16, 2006 to extend the term until September 30, 2008, provided that the term shall extend for an additional one year unless terminated by either side on 90 days notice. The board of directors met on March 19, 2010 and voted to extend this contract for an additional year, extending the term until September 30, 2010. The board of directors met again on April 7, 2011, and voted to extend Mr. Rosen's contract for another year, until September 30, 2011. The agreement provides for an annual salary of not less than $350,000, with a minimum annual bonus equal to 25% of his annual salary. In the event that we achieve a positive EBITDA for two successive quarters, he will be paid a one-time bonus equal to 50% of his annual salary then in effect. In the event that the employment is terminated without cause, including by change of control, the agreement provides that Mr. Rosen will receive unpaid base salary accrued through the effective date of the termination plus any pro-rata bonus and a lump sum of 200% of his base salary and 200% of his highest annual bonus for the three years preceding his termination. If that had occurred on December 31, 2010, the amount due to Mr. Rosen would have been $700,000. The agreement also includes a one-year non-compete provision. In the event of a sale of the Company for an amount in excess of $100 million, Mr. Rosen would receive a bonus equal to 2% of proceeds of sale between $100 million and $200 million, 3% of proceeds of sale between $200 million and $300 million, 4% of proceeds of sale between $300 million and $400 million, and 5% of proceeds of sale over $400 million. Mr. Rosen has voluntarily waived his bonus opportunity since December of 2006, pending improvement in the Company's financial position.

Mr. Gordon Hutchins Jr. serves as President, Chief Operating Officer, and Acting Chief Financial Officer of the Company. Mr. Hutchins does not have a written employment agreement with the Company. His promotion to President and Chief Operating Officer on March 26, 2008 included an increase in his annual salary from $220,000 to $250,000, and he retains a targeted bonus opportunity equal to 25% of annual salary, based on achievement of corporate performance metrics. Mr. Hutchins has voluntarily waived the increase in his annual salary since March 2008, pending improvement in the Company's financial position. No bonuses have been awarded, pending improvement in the Company's financial position.

Ms. Jan Sarro serves as Executive Vice President – Corporate Services. Ms. Sarro does not have a written employment agreement with the Company. On March 26, 2008, Ms. Sarro's annual salary was increased from $155,000 to $185,000; however, she has voluntarily waived the increase in her annual salary since March 2008, pending improvement in the Company's financial performance. Ms. Sarro is entitled to a targeted bonus opportunity equal to 25% of annual salary, based on achievement of corporate performance metrics. No bonuses have been awarded, pending improvement in the Company's financial performance.

The Compensation of each executive officer is determined by negotiations between the Compensation Committee and those executive officers, which are then subject to approval by the Compensation Committee and the board of directors.

2010 Director Compensation

Our directors do not receive cash compensation for their services on the Company's board or board committees. However, we reimburse our directors for out-of-pocket expenses associated with their attendance at board meetings and we grant directors options under our stock option plans as compensation for their services.

The following table provides information relating to compensation paid to the Company's directors for the 2010 fiscal year.

Name	Fees Earned Or Paid In Cash (S)	Stock Awards ($)	Option Awards (1) ($)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (2) ($)	Total ($)
Marvin S. Rosen	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
E. Alan Brumberger	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
Michael J. Del Giudice	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
Julius Erving	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
Paul C. O'Brien	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
Philip D. Turits	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650
Christopher D. Brady (3)	$ -	$ -	$ 1,650	$ -	$ -	$ -	$ 1,650

(1) This column reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010, for option awards pursuant to the Company's 1998 and 2009 Stock Option Plans and may include amounts from awards granted both in and prior to 2010. The value attributable to option awards is computed in accordance with FASB ASC Topic 718, and the assumptions made in the valuations of the option awards are included in Note 2 (Summary of Significant Accounting Policies – Stock Based Compensation) of the notes to our financial statements for the year ended December 31, 2010, appearing elsewhere in this Annual Report on Form 10-K.

(2) The table does not include reimbursement for out of pocket expenses associated with attendance at board meetings.

(3) Mr. Christopher Brady resigned from the board of directors effective June 15, 2010, to pursue other business opportunities.

Stock Option Plans

On December 17, 2009, the stockholders approved and adopted the Company's 2009 Stock Option Plan (the "2009 Plan"), which had been approved by the board of directors on March 26, 2009. This plan replaced the 1998 Stock Option Plan, which had expired. The 2009 Plan provides a long-term, equity-based incentive designed to assist in the retention of key personnel, align the interests of directors, executive officers, employees, and selected consultants with those of the stockholders, and focus all of these individuals on the achievement of those long-term business objectives that will increase share value.

Under the 2009 Plan, the Company has reserved 7,000,000 common shares for the award from time to time of stock options. Stock options awarded under the 2009 Plan may either be options that qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, ("Incentive Stock Options") or, alternatively, as options that do not so qualify ("Non Qualified Options"). Any Incentive Stock Options granted under the 2009 Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of the grant.

The 2009 Plan is administered by the Compensation Committee and by our board of directors. The Compensation Committee and the board will determine, from time to-time, those of our officers, directors, employees, and consultants to whom stock options will be granted, as well as the actual number of options granted to each individual, the vesting schedule, and the other terms and conditions of the stock options.

As of December 31, 2010, there were outstanding options to purchase 5,722,375 shares of common stock and options to purchase 4,426,500 shares were available for future award.

Outstanding Equity Awards at Year End

The following table provides information concerning unexercised options, stock that has not vested, as equity incentive plan awards for each named executive officer outstanding as of December 31, 2010.

	OPTION AWARDS					STOCK AWARDS			
Name	**Number of securities underlying unexercised options, (#) exercisable**	**Number of securities underlying unexercised options, (#) unexercisable**	**Equity incentive plan awards; Number of securities underlying unexercised unearned options (#)**	**Option exercise prices ($)**	**Option expiration dates**	**Number of shares or units of stock that have not vested (#)**	**Market value of shares or units of stock that have not vested ($)**	**Equity incentive plan awards; Number of unearned shares, units or other rights that have not vested (#)**	**Equity incentive plan awards; Number of unearned shares, units or other rights that have not vested (#)**
Matthew D. Rosen	62,143	0	0	$3.15	7/13/2014	0	0	0	0
	62,143	0	0	$4.38	7/13/2014	0	0	0	0
	218,572	0	0	$4.38	7/13/2014	0	0	0	0
	107,142	0	0	$2.80	3/6/2016	0	0	0	0
	132,858	0	0	$2.46	3/6/2016	0	0	0	0
	160,000	0	0	$2.28	6/15/2016	0	0	0	0
	350,000	0	0	$0.69	3/28/2017	0	0	0	0
	233,334	116,666	0	$0.31	3/25/2018	0	0	0	0
	116,667	233,333	0	$0.11	3/25/2019	0	0	0	0
	0	437,500	0	$0.12	4/14/2010	0	0	0	0
Total Matthew D. Rosen	1,442,859	787,499							
Gordon Hutchins, Jr.	107,142	0	0	$2.80	3/6/2016	0	0	0	0
	17,858	0	0	$2.65	3/6/2016	0	0	0	0
	175,000	0	0	$0.69	3/28/2017	0	0	0	0
	133,334	66,666	0	$0.31	3/25/2018	0	0	0	0
	66,667	133,333	0	$0.11	3/25/2019	0	0	0	0
	0	250,000	0	$0.12	4/14/2020	0	0	0	0
Total Gordon Hutchins, Jr.	500,001	449,999							
Jan Sarro	4,993	0	0	$4.38	7/14/2014	0	0	0	0
	12,865	0	0	$4.38	7/14/2014	0	0	0	0
	28,572	0	0	$4.38	7/14/2014	0	0	0	0
	17,858	0	0	$3.15	7/14/2014	0	0	0	0
	20,000	0	0	$6.45	2/9/2015	0	0	0	0
	20,000	0	0	$2.46	12/22/2015	0	0	0	0
	60,000	0	0	$0.69	3/29/2017	0	0	0	0
	66,667	33,333	0	$0.31	3/26/2018	0	0	0	0
	33,334	66,666	0	$0.11	3/26/2019	0	0	0	0
	0	150,000	0	$0.11	4/14/2020	0	0	0	0
Total Jan Sarro	264,289	249,999							

Item 12. Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table presents information regarding the beneficial ownership of the Company's common stock as of the date of this report, by:

- Each person who beneficially owns more than 5% of the Company's common stock
- Each of the Company's directors, director nominees and Named Executive Officers (within the meaning of Item 402(a)(3) of Regulation S-K) individually
- All Named Executive Officers and directors as a group

Beneficial ownership is determined under the rules of the SEC. These rules deem common stock issuable upon the exercise of options currently exercisable, or exercisable within sixty (60) days, or other securities convertible into common stock, currently or within sixty (60) days, to be outstanding for purposes of computing the ownership percentage of the person holding the options and convertible securities or of a group of which the person is a member, but these rules do not deem the stock to be outstanding for purposes of computing the ownership percentage of any other person or group. To the Company's knowledge, the persons named in the table, and the notes hereto, have sole voting and sole investment control with regard to all shares beneficially owned.

Name and Address (**) of Beneficial Owners		Number of Shares Beneficially Owned	Percentage of Common Stock
E. Alan Brumberger	(1)	1,552,255	1.2%
Julius Erving	(2)	122,411	* %
Michael J. Del Giudice	(3)	1,241,270	* %
Evelyn Langlieb Greer	(4)	247,127	* %
Gordon Hutchins, Jr.	(5)	995,182	* %
Paul C. O'Brien	(6)	228,537	* %
Marvin S. Rosen	(7)	19,438,628	14.2%
Matthew D. Rosen	(8)	2,348,379	1.7%
Jan Sarro	(9)	532,362	* %
Philip D. Turits	(10)	10,916,242	8.2%
All Directors and Executive Officers as a Group (10 persons)		37,622,393	26.2%
West End Special Opportunity Fund II, LP	(11)	19,887,286	14.9%

* Less than 1% of outstanding shares

** Unless otherwise indicated all addresses are c/o Fusion Telecommunications International, Inc., 420 Lexington Avenue, Suite 1718, New York, NY 10170.

(1) Includes (i) 10,715 shares of common stock held by trusts for which his wife serves as trustee, (ii) 18,037 shares of common stock issuable upon the exercise of Convertible Preferred Stock Series A-1 and A-2, (iii) 65,000 shares of common stock issuable upon the exercise of options, and (iv) 317,946 shares of common stock issuable upon exercise of Redeemable Common Stock Purchase Warrants.

(2) Includes (i) 65,000 shares of common stock issuable upon the exercise of options, (ii) 29,940 shares of common stock issuable upon exercise of Convertible Preferred Stock Series A-1, and (iii) 14,971 Redeemable Common Stock Purchase Warrants.

(3) Includes (i) 65,000 shares of common stock issuable upon the exercise of options, (ii) 322,431 Redeemable Common Stock Purchase Warrants of which 59,881 are held in the name of Catskill Investor Group, LLC, and (iii) 119,760 shares of common stock issuable upon the exercise of Convertible Preferred Stock Series A-1 held in the name of Catskill Investor Group, LLC.

(4) Includes (i) 101,715 shares of common stock held by a trust for which she serves as trustee, (ii) 74,424 Redeemable Common Stock Purchase Warrants, (iii) 65,000 shares of common stock issuable upon the exercise of options, and (iv) 5,988 shares of common stock issuable upon the exercise of Convertible Preferred Stock Series A-1.

(5) Includes (i) 950,000 shares of common stock issuable upon the exercise of options, (ii) 30,121 shares of common stock issuable upon the exercise of Preferred Stock Series A-2, and (iii) 15,061 Redeemable Common Stock Purchase Warrants.

(6) Includes (i) 65,000 shares of common stock issuable upon the exercise of options, (ii) 59,880 shares of common stock issuable upon conversion of Preferred Stock Series A-1, and (iii) 31,275 Redeemable Common Stock Purchase Warrants.

(7) Includes (i) 4,588,250 Redeemable Common Stock Purchase Warrants, (ii) 65,000 shares of common stock issuable upon the exercise of options, and (iii) 60,061 shares of common stock issuable upon exercise of Convertible Stock Series A-1 and A-2, and (iv) 80,500 shares of common stock held by Delaware Trust, custodian of the IRA of Mr. Rosen.

(8) Includes (i) 2,230,358 shares of common stock issuable upon the exercise of options, (ii) 35,965 shares of common stock issuable upon exercise of Convertible Preferred Stock Series A-1 and A-2, and (iii) 17,984 Redeemable Common Stock Purchase Warrants.

(9) Includes (i) 514,288 shares of common stock issuable upon the exercise of options, (ii) 12,049 shares of common stock issuable upon exercise of Convertible Preferred Stock A-2, held by her husband, and (iii) 6,025 Redeemable Common Stock Purchase Warrants, held by

her husband.

(10) Includes (i) 10,715 shares of common stock held by a trust for which he serves as trustee, (ii) 2,162,296 Redeemable Common Stock Purchase Warrants, (iii) 65,000 shares of common stock issuable upon the exercise of options, (iv) 51,117 shares of common stock issuable upon exercise of Convertible Preferred Stock A-1 and A-2, and (v) 4,287 shares of common stock held by his wife. Mr. Turits has granted certain individuals options to purchase an aggregate of 50,000 shares of his common stock.

(11) Includes (i) 18,689,966 shares of common stock, and (ii) 1,197,320 Redeemable Common Stock Purchase Warrants. The address provided by the named stockholder is 77 East 55th Street, New York, NY 10022.

Equity Compensation Plans

The following table sets forth securities authorized for issuance under our equity compensation plans as of December 31, 2010.

Plan Category	Number Of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price Of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance
1998 Stock Option Plan, equity compensation plans approved by security holders	3,148,875	$ 1.65	-
2009 Stock Option Plan, equity compensation plans approved by security holders	2,573,500	$ 0.12	4,426,500
Total	5,722,375	$ 0.96	4,426,500

Item 13. Certain Relationships, Related Transactions, and Director Independence

Officer and Director Loans to Company

During 2010, the Company borrowed an aggregate of $1,750,000 from our Chairman of the Board, Marvin Rosen. These loans are payable with interest at the rate of three and one quarter percent (3.25%) per annum and are payable upon ten days' demand from the lender. The Company's obligation to repay the loans is collateralized by a security interest, pari passu with other lenders, in the Company's accounts receivable. As of December 31, 2010, and March 31, 2011, $1,463,000 and $1,463,000 of these loans remained outstanding, respectively. These loans are evidenced by a series of 22 promissory notes, which are identical in form and substance, other than the date, the amount of each loan and the maturity date (notes not paid by the maturity date automatically convert into demand notes). The Form of Promissory Note and Security Agreement is included as Exhibit 10.20, and incorporated herein by reference. The largest amount outstanding to Mr. Rosen during 2010 was $2,485,425 (which amount also included loans outstanding as of December 31, 2009). During 2010, the total amount of interest paid or accrued under all loans to Mr. Rosen was $111,062.

During 2009, the Company borrowed an aggregate of $1,140,268 from our Chairman of the Board, Marvin Rosen. These loans bear interest at rates ranging from three percent (3%) to ten percent (10%) per annum, and are payable upon ten days' demand from the lender. The Company's obligation to repay the loans is collateralized by a security interest, pari passu with other lenders, in the Company's accounts receivable. During 2010, Mr. Rosen converted $394,248 of indebtedness into 2,816,059 shares of the Company's common stock and five year warrants to purchase a total of 1,408,032 shares of the Company's common stock, one-half exercisable at $0.175 per share (125% of the conversion price), and the balance exercisable at $0.21 per share (150% of such price). As of December 31, 2009 and March 31, 2011, $746,020 and $746,020 of these loans remained outstanding, respectively. These loans are evidenced by a series of 8 promissory notes, which are identical in form and substance, other than the date, the amount of each loan and the maturity date (notes not paid by the maturity date automatically convert into demand notes). The Form of Promissory Note and Security Agreement is included as Exhibit 10.20, and incorporated herein by reference. The largest amount outstanding to Mr. Rosen during 2009 was $1,226,873 (which amount also included loans outstanding as of December 31, 2008). During 2009, the total amount of interest paid or accrued under all loans to Mr. Rosen was $73,354.

Director Independence

The Company applies the standards of NYSE Amex LLC (the “Exchange”), for determining the independence of the members of its board of directors and board committees. Based upon its application of those standards, the board of directors has determined that the following members of the Company’s board of directors (and committee members, as applicable) are independent:

E. Alan Brumberger
Julius Erving
Evelyn Langlieb Greer
Paul C. O'Brien
Michael J. Del Giudice

Item 14. Principal Accounting Fees and Services

Aggregate Fees

The aggregate fees billed to the Company for the years ended December 31, 2010 and 2009, by the Company’s principal accounting firm Rothstein, Kass & Company, P.C. are as follows:

Audit Fees

The fees billed for professional services rendered by Rothstein, Kass & Company, P.C. for the years ended December 31, 2010, and December 31, 2009, were approximately $147,000 and $147,000, respectively. These professional services included fees associated with the audit of the Company’s annual financial statements and reviews of the Company’s quarterly financial statements.

Tax Related Fees

The fees for tax-related services for the years ended December 31, 2010, and December 31, 2009, were approximately $4,5000 and $4,000, respectively. Prior to the year ended December 31, 2010, the Company obtained tax related services from an accounting firm other than Rothstein, Kass & Company, P.C.

All Other Fees

There were no fees for other services that were not included in the categories above during the years ended December 31, 2010 and 2009.

Audit Committee Pre-Approval Of Audit and Permissible Non-Audit Services Of Independent Accountants

Consistent with SEC policies regarding auditor independence, the Audit Committee has the responsibility for appointing, setting compensation, and overseeing the work of the independent accountant. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent accountant.

Prior to engagement of the independent accounting firm for the next year's audit, management will submit to the Audit Committee for approval an aggregate of services expected to be rendered during that year for each of three categories of services.

Audit services include audit work performed in the preparation of financial statements, as well as work that generally only the independent accountant can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.

Audit-Related services are for assurance and related services that are traditionally performed by the independent accountant, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements. Other Fees are those associated with services not captured in the other categories. The Company generally does not request such services from the independent accountant.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent accountant and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent accounting firm for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent accountant.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) (1) Financial Statements.

The consolidated financial statements filed as part of this Annual Report on Form 10-K, are identified in the Index to Consolidated Financial Statements.

(a) (2) Financial Statement Schedules.

Schedule II — Valuation and Qualifying Accounts is included herein. All other financial statement schedules have been omitted, because the information required to be set forth therein is not applicable or because it is shown on the financial statements or the notes thereto.

(a) (3) Exhibits.

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

Exhibit No.	Description
3.1	Certificate of Incorporation, as amended (*)
3.1 (a)	Certificate of Designation of Series C Convertible Redeemable Preferred Stock (*)
3.1 (b)	Certificate of Designation of the Rights and Preferences of the Series A-2 Preferred Stock (6)
3.1 (c)	Certificate of Designation of the Rights and Preferences of the Series A-4 Preferred Stock (9)
3.1 (d)	Form of Subscription Agreement (7)
3.1 (e)	Certificate of Designation of the Rights and Preferences of the Series A-1 Preferred Stock (5)
3.2	Bylaws (*)
10.1	1998 Stock Option Plan (*)
10.2	Employment Agreement between registrant and Matthew Rosen (*)
10.2.1	Amended and Restated Employment Agreement between registrant and Matthew Rosen (3)
10.3	Master Service Agreement between registrant and Terremark Worldwide, Inc., dated May 29, 2003(*)
10.5	Joint Venture Agreement between registrant and Karamco, Inc., dated December 12, 2002 (*)
10.7	Form of Warrant to Purchase Common Stock (*)
10.8	Lease Agreement between registrant and SLG Graybar Sublease, LLC for the 420 Lexington Avenue, New York, NY office (*)
10.8.1	Lease Modification Agreement dated November 1, 2005, between registrant and SLG Graybar Sublease, LLC for the 420 Lexington Avenue, New York, NY office (8)
10.8.2	Lease Modification Agreement dated November 1, 2005, between registrant and SLG Graybar Sublease, LLC for the 420 Lexington Avenue, New York, NY office (8)
10.8.3	Lease Agreement dated November 1, 2005, between registrant and SLG Graybar Sublease, LLC for the 420 Lexington Avenue, New York, NY office (8)
10.9	Lease Agreement between registrant and 67 Broad Street LLC for the 75 Broad Street, New York, NY Office (*)
10.10	Lease Agreement between registrant and Fort Lauderdale Crown Center, Inc. for the Fort Lauderdale, Florida office, as amended (*)
10.10.1	Amendment dated February 10, 2006, to Lease Agreement between registrant and Fort Lauderdale Crown Center, Inc., for the Fort Lauderdale, Florida office, as amended (8)
10.11	Lease Agreement between Efonica FZ- LLC and Dubai Internet City for Dubai offices (8)
10.13	Shareholders Joint Venture Agreement between registrant and Communications Ventures Index Pvt. Ltd., dated March 11, 2000 (*)
10.19	Warrant to Purchase Common Stock issued by registrant to Marvin Rosen, dated July 31, 2002 (*)
10.20	Form of Promissory Note and Security Agreement (2)

10.21 Agreement with MCI Communications Services, Inc., dated September 20, 2006 (2)
10.22 Agreement with VCG dated June 10, 2004 (2)
10.23 Agreement with Qwest Communications Corporation dated April 22, 2002 (2)
10.24 Agreement with AT&T dated April 13, 2006 (2)
10.25 Agreement with T-Systems, Inc., dated October 24, 2002 (2)
10.28 Non-Competition Agreement between registrant and Marvin Rosen (*)
10.29 Stock Purchase Agreement between registrant, Convergent Technologies, Ltd. and the stockholders listed on Schedule 1 Attached thereto, dated December 16, 2004, as amended and restated, dated January 11, 2005 (*)
10.31.1 Stock Purchase Agreement between registrant, Efonica FZ-LLC and Karamco, Inc., dated January 11, 2005 and the amendment thereto (*)
10.31.2 Amendment to Stock Purchase Agreement between registrant, Efonica FZ-LLC and Karamco, Inc., dated March 24, 2006 (8)
10.32 Carrier Service Agreement for International Terminating Traffic between the registrant and Qwest Communications Corporation, dated May 17, 2000 (*)
10.33 Carrier Service Agreement between registrant and Telco Group, Inc. dated April 3, 2001, as amended (*)
10.34 Colocation License Agreement between the registrant and Telco Group, dated January 28, 2002 (*)
10.35 International VoIP Agreement, dated April 25, 2002, as amended (*)
10.37 Lease Agreement dated April 28, 2005, between Convergent Technologies Limited and Oceanic Digital Jamaica Limited (**)
10.38 Promissory Note issued by iFreedom Communications International Holdings, Limited; iFreedom Communications Corporation; iFreedom Communications (Malaysia) Sdn. Bhd.; iFreedom Communications, Inc.; iFreedom Communications Hong Kong Limited and iFreedom UK, Ltd., jointly and severally, to Registrant. (8)
10.39 Form of Subscription Agreement (5)
10.40 Form of Warrant (5)
14 Code of Ethics of Registrant (8)
21.1 List of Subsidiaries (8)
31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
31.2 Certification of President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
32.1 Section 1350 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)
32.2 Section 1350 Certification of President Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

* Originally filed with the Company's Registration Statement no. 33-120412 and incorporated herein by reference.
** Originally filed with the Company's Registration Statement no. 33-120206 and incorporated herein by reference.
(1) Filed herewith.
(2) Filed as Exhibit to the Company's Annual Report on Form 10-K filed April 13, 2011, and incorporated herein by reference.
(3) Filed as Exhibit to the Company's Current Report on Form 8-K filed on March 17, 2006, and incorporated herein by reference.
(4) Filed as Exhibit to the Company's Annual Report of Form 10-K filed March 25, 2010, and incorporated herein by reference.
(5) Filed as Exhibit to the Company's Current Report on Form 8-K filed on December 15, 2006, and incorporated herein by reference.
(6) Filed as Exhibit to the Company's Current Report on Form 8-K filed on May 9, 2007, and incorporated herein by reference.
(7) Filed as Exhibit to the Company's Current Report on Form 8-K filed on November 23, 2007 and 8K/A on November 27, 2007, and incorporated herein by reference.
(8) Filed as Exhibit to the Company's Current Report on Form 10-K filed on March 31, 2006, and incorporated herein by reference.
(9) Identical to Certificate of Rights and Preferences of Series A-2 Preferred Stock filed as exhibit on Form 8-K on May 9, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

Date: April 7, 2011 **By: /s/ MATTHEW D. ROSEN**

Matthew D. Rosen
Chief Executive Officer and Principal Executive Officer

Date: April 7, 2011 **By: /s/ GORDON HUTCHINS, JR.**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has also been signed below by a majority of our board of directors on the dates indicated.

Signature	Title	Date
/s/ MARVIN S. ROSEN Marvin S. Rosen	Chairman of the Board	April 7, 2011
/s/ PHILIP D. TURITS Philip D. Turits	Director	April 7, 2011
/s/ MATTHEW D. ROSEN Matthew D. Rosen	Director	April 7, 2011
/s/ E. ALAN BRUMBERGER E. Alan Brumberger	Director	April 7, 2011
Julius Erving	Director	
Evelyn Langlieb Greer	Director	
/s/ PAUL C. O'BRIEN Paul C. O'Brien	Director	April 7, 2011
/s/ MICHAEL J. DEL GIUDICE Michael J. Del Giudice	Director	April 7, 2011

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a−14(a)/15d−14(a).
31.2	Certification of the President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a−14(a)/15d−14(a).
32.1	Section 1350 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Section 1350 Certification of the President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, CFO

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Fusion Telecommunications International, Inc.

We have audited the accompanying consolidated balance sheets of Fusion Telecommunications International, Inc. and Subsidiaries (collectively, the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ deficit, and cash flows for each of the years in the two-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fusion Telecommunications International, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has negative working capital balances, incurred negative cash flows from operations and net losses since inception, and has limited capital to fund future operations that raises a substantial doubt about their ability to continue as a going concern. Management’s plans in regard to this matter are also described in Note 2. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

Our audits were conducted for the purpose of expressing an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

/s/ **Rothstein, Kass & Company, P.C**.

Roseland, New Jersey
April 8, 2011

Consolidated Balance Sheets

	December, 31 2010	December, 31 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,370	$ 99,019
Accounts receivable, net of allowance for doubtful accounts of approximately $370,000 and $539,000 in 2010 and 2009, respectively	2,721,585	2,500,319
Restricted cash, current portion	-	168,176
Prepaid expenses and other current assets	103,009	130,647
Assets held for sale	1,089	6,513
Current assets from discontinued operations	12,449	32,283
Total current assets	2,858,502	2,936,957
Property and equipment, net	1,124,398	1,664,583
Other assets:		
Security deposits	13,330	23,008
Restricted cash, net of current portion	533,437	248,390
Intangible assets, net	409,000	489,294
Other assets	39,486	62,119
Total other assets	995,253	822,811
TOTAL ASSETS	$ 4,978,153	$ 5,424,351
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Promissory Notes Payable – non-related parties	$ 683,870	$ 725,000
Promissory Notes Payable – related parties	2,420,625	1,682,187
Capital lease/equipment financing obligations, current portion	4,550	14,831
Escrow Payable	155,000	321,418
Accounts payable and accrued expenses	9,178,674	9,263,872
Current liabilities from discontinued operations	165,274	360,294
Total current liabilities	12,607,993	12,367,602
Long-term liabilities:		
Capital lease/equipment financing obligations, net of current portion		2,587
Other long-term liabilities	428,646	336,815
Total long-term liabilities	428,646	339,402
Commitments and contingencies		
stockholders' deficit:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 7,295 and 7,995 shares issued and outstanding in 2010 and 2009, respectively	73	80
Common stock, $0.01 par value, 225,000,000 shares authorized, 132,010,498 and 92,543,932 shares issued and outstanding in 2010 and 2009, respectively	1,320,105	925,440
Capital in excess of par value	135,613,755	130,984,766
Accumulated deficit	(144,992,419)	(139,192,939)
Total stockholders' deficit	(8,058,486)	(7,282,653)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,978,153	$ 5,424,351

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations

	Years Ended December 31, 2010	2009
Revenues	$ 41,763,002	$ 40,938,615
Operating expenses:		
Cost of revenues, exclusive of depreciation and amortization, shown separately below	37,830,121	37,553,727
Depreciation and amortization	847,881	1,361,798
Loss on impairment of long-lived assets	19,018	243,000
Selling, general and administrative expenses (includes approximately $254,000, and $342,000 of stock-based compensation for 2010, and 2009, respectively)	8,847,474	9,216,292
Advertising and marketing	38,973	42,705
Total operating expenses	47,583,467	48,417,522
Operating loss	(5,820,465)	(7,478,907)
Other income (expenses):		
Interest income	491	4,233
Interest expense	(181,205)	(387,460)
Gain on settlements of debt	159,500	12,758
Other	54,456	(62,043)
Total other income (expenses)	33,242	(432,512)
Income (loss) from continuing operations	(5,787,223)	(7,911,419)
Discontinued operations:		
Loss from discontinued operations	(12,257)	(1,674,793)
Net loss	$ (5,799,480)	$ (9,586,212)
Loss applicable to common stockholders:		
Loss from continuing operations	$ (5,787,223)	$ (7,911,419)
Preferred stock dividends in arrears	(583,600)	(639,600)
Net loss from continuing operations applicable to common stockholders:	(6,370,823)	(8,551,019)
Loss from discontinued operations	(12,257)	(1,674,793)
Net loss applicable to common stockholders	$ (6,383,080)	$ (10,225,812)
Basic and diluted net loss per common share:		
Loss from continuing operations	$ (0.05)	$ (0.13)
(Loss) from discontinued operations	(0.01)	(0.03)
Net loss applicable to common stockholders	$ (0.06)	$ (0.16)
Weighted average common shares outstanding:		
Basic and diluted	115,848,332	65,475,687

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Deficit

	Preferred Stock	Common Stock	Capital In Excess Of Par Value	Accumulated Deficit	Stockholders' Equity (Deficit)
Balances, January 1, 2009	**$ 80**	**$ 457,500**	**$124,384,568**	**$ (129,606,727)**	**$ (4,764,579)**
Proceeds from sale of Common Stock, net of investment expenses	-	224,744	2,761,052		2,985,796
Non-cash compensation expense - stock options	-	-	293,183	-	293,183
Non-cash compensation expense - stock issued for consulting services	-	3,500	45,500	-	49,000
Non-cash compensation expense - debt conversion	-	239,696	3,500,463	-	3,740,159
Net Loss	-	-	-	(9,586,212)	(9,586,212)
Balances, December 31, 2009	**80**	**925,440**	**130,984,766**	**(139,192,939)**	**(7,282,653)**
Proceeds from sale of Common Stock, net of investment expenses	-	298,216	3,279,285	-	3,577,501
Non-cash compensation expense - stock options	-	-	254,947	-	254,947
Non-cash conversion of Preferred A-3 Series to Common Stock	(7)	8,434	(8,427)	-	-
Non-cash conversion of Notes Payable to Common Stock	-	68,035	856,765	-	924,800
Non-cash conversion of Interest Payable to Common Stock-Related Parties	-	1,665	18,317	-	19,982
Non-cash transfer from Escrow Payable to Equity	-	22,482	298,935	-	321,417
Non-cash transfer from Equity to Escrow Payable-Shares to vendor not yet issued by transfer agent	-	(4,167)	(70,833)	-	(75,000)
Net Loss	-	-	-	(5,799,480)	(5,799,480)
Balances, December 31, 2010	**$ 73**	**$1,320,105**	**$135,613,755**	**$ (144,992,419)**	**$ (8,058,486)**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2010	**2009**
Cash flows from operating activities:		
Net loss	$ (5,799,480)	$ (9,586,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on impairment/continuing operations	19,018	243,000
Loss on impairment/discontinued operations	-	755,953
Depreciation and amortization	847,881	1,361,798
Gain / loss on sale / disposal of fixed assets	-	71,178
Bad debt expense	20,444	75,014
Stock-based compensation	254,947	342,183
Gain on extinguishment of debt	(159,500)	(12,758)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	(241,710)	665,336
Prepaid expenses and other current assets	27,638	18,787
Other assets	22,633	62,720
Accounts payable and accrued expenses	(42,904)	(270,339)
Other long-term liabilities	91,831	(148,616)
Net cash used in operating activities	**(4,959,202)**	**(6,421,956)**
Cash flows from investing activities:		
Purchase of property and equipment	(223,571)	(31,102)
Returns (payments) of security deposits	-	27,233
Returns of other intangible assets	-	2,640
Repayments of (payments for) restricted cash	(116,870)	-
Net cash used in investing activities	**(340,441)**	**(1,229)**
Cash flows from financing activities:		
Proceeds from sale of common stock, net	3,577,501	2,985,796
Proceeds from sale of common stock, not yet issued	50,000	105,000
Proceeds from notes payable – related parties	1,750,000	2,803,092
Proceeds from notes payable – non-related parties	350,000	-
Payments of long-term debt and capital lease/equipment financing obligations	(12,868)	(30,024)
Repayments of notes payable – related parties	(287,000)	-
Repayments of notes payable – non-related parties	(41,130)	-
Net cash provided by financing activities	**5,386,503**	**5,863,864**
Net increase (decrease) in cash from continuing operations	**86,860**	**(559,321)**
Cash flows from discontinued operations:		
Cash provided by (used for) operating activities of discontinued operations	(165,509)	230,907
Net increase (decrease) in from discontinuing operations	**(165,509)**	**230,907**
Net increase (decrease) in cash from continuing and discontinued operations:	**(78,649)**	**(328,414)**
Cash, beginning of year	**99,019**	**427,433**
Cash, end of year	**$ 20,370**	**$ 99,019**

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
2010 ANNUAL REPORT ON FORM 10-K

Years Ended December 31,

		2010		2009
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	41,250	$	60,637
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	$	724,800	$	3,526,397
Conversion of Interest Payable-Related Parties to Common Stock	$	19,982	$	213,762
Conversion of Notes Payable-Non Related Party to Common Stock	$	200,000	$	192,500
Conversion of Interest Payable-Non Related Party to Common Stock not yet issued	$	-	$	23,917
Transfer of Liabilities from Continuing Operations to Liabilities of Discontinuing Operations	$	-	$	260,777
Transfer of Capital Leases from Continuing Operations to Liabilities of Discontinuing Operations	$	-	$	99,517
Transfer of Fixed Assets from Continuing Operations to Assets of Discontinuing Operations	$	-	$	32,283
Note transfer from non-related party to related party	$	-	$	1,460,000
Notes transfer from Related Party to Non-Related Party	$	-	$	42,500
Transfer from Escrow Payable to Common Stock	$	321,417	$	-
Transfer from Equity to Escrow Payable-Shares to vendor not yet issued	$	75,000	$	-
Transfer of Vendor Debt to Escrow Payable-Shares to vendor not yet issued	$	30,000	$	-
Conversion of Series A-3 Preferred to Common Stock	$	7	$	

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations

Fusion Telecommunications International, Inc., and Subsidiaries (collectively, the “Company”) is a Delaware corporation, incorporated in September 1997. The Company is a provider of Internet Protocol ("IP") based digital voice and data communications services to corporations and carriers worldwide. The Company's services include local, long distance, and international Voice over Internet Protocol ("VoIP") services; broadband Internet access; private line circuits; audio and web conference calling; fax services; and a variety of other enhanced communications services and features.

2. Going Concern and Liquidity

At December 31, 2010, the Company had a working capital deficit of approximately $(9.7) million and an accumulated deficit of approximately $(144.9) 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 following year. During the year ended December 31, 2010, the Company raised approximately $3.6 million net of expenses from the sale of its securities. The Company cannot provide any assurances as to 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 consolidated 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. Summary of Significant Accounting Policies

Principles of Presentation and Consolidation

The consolidated financial statements include the accounts of Fusion Telecommunications International, Inc. and its wholly owned and majority-owned subsidiaries. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the SEC’s accounting rules under Regulation S-X. All material inter-company accounts and transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed and determinable, and collectability is reasonably assured. When significant, the Company records provisions against revenue for billing adjustments, which are based upon estimates derived from factors that include, but are not limited to, historical results, analysis of credits issued, current economic trends, and changes in demand. The provisions for revenue adjustments are recorded as a reduction of revenue when incurred or ratably over a contract period, as applicable.

The Company’s revenue is primarily derived from usage fees charged to carriers and corporations that terminate voice or data 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 the Company with the ability to complete a timely and accurate analysis of revenue earned in a period. Consequently, the recorded amounts are generally accurate and they are unlikely to be revised in the future.

Fixed revenue is earned from monthly recurring services provided to the customer for which the charges 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 the Company's 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

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 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.

Fair Value of Financial Instruments

The carrying amounts of the Company's assets and liabilities approximate their fair value presented in the accompanying Consolidated Balance Sheets, due to their short maturities.

Intangible Assets and Goodwill Impairment Testing

Intangible assets represent trade names and trademarks. In determining fair value, the Company uses standard analytical approaches to business enterprise valuation ("BEV"), such as the market comparable approach and the income approach. The market comparable approach is based on comparisons of the subject company to similar companies engaged in an actual merger or acquisition or to public companies whose stocks are actively traded. As part of this process, multiples of value relative to financial variables, such as earnings or stockholder's equity, are developed and applied to the appropriate financial variables of the subject company to indicated its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return. Each of these BEV methodologies requires the use of management estimates and assumptions. Intangible assets consist primarily of the trade name and trademarks, Efonica FZ, LLC ("Efonica"). The remaining intangible asset is being amortized using the straight-line method over the seven-year estimated useful life.

Impairment of Long-Live Assets

The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets. In 2010, the Company recorded an impairment of approximately $19,000 related to long-lived assets.

Property and Equipment

Property and equipment are stated at cost and are depreciated or amortized on the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Lives
Network equipment	5 – 7 Years
Furniture and fixtures	3 – 7 Years
Computer equipment and software	3 – 5 Years
Leasehold improvements	Lease terms

Maintenance and repairs are charged to operations, while betterments and improvements are capitalized.

Advertising and Marketing

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.

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. Based on its analysis, the Company has determined that the adoption of this policy did not have a material impact on the Company's financial statements for the years ended December 31, 2010 and 2009. However, management's conclusions regarding this policy 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.

The Company may be subject to potential examination by U.S. federal, U.S. states or foreign jurisdiction authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal, U.S. state and foreign tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

Foreign Currency Transaction

The Company's subsidiaries have in the past and may in the future enter into foreign currency transactions. Any conversion gains or losses resulting from these foreign currency transactions are included in the accompanying Consolidated Statements of Operations.

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, 5,722,375 and 4,642,524 shares of the Company's common stock as of December 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.

Unexercised warrants to purchase 42,171,097 and 28,830,132, shares of the Company's common stock as of December 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 $584,000 and $640,000 as of December 31, 2010 and 2009, respectively. However, no cash dividend had been declared by the board of directors as of December 31, 2010.

Accounting for Costs Associated with Exit or Disposal Activities

The Company accounts for restructuring activities, including costs for the one-time termination benefits, in accordance with the requirements under U.S. GAAP for costs associated with the impairment and disposal of long-lived assets. Employee termination costs are recorded when actions are probable and estimable. Asset impairment costs are recorded in accordance with U.S. GAAP. In 2009, the Company recorded a loss on impairment of discontinued assets of $243,000.

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 consolidated statement of operations. Amounts presented for prior years are reclassified to reflect their classification as discontinued operations. See Note 8 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 Consolidated Statements of Operations during the year ended December 31, 2010 and 2009, includes compensation expense for stock-based payment awards granted prior to, but not yet vested, as of December 31, 2010, based on the grant date fair value estimated. As stock-based compensation expense recognized in the Consolidated Statements of Operations for the years ended December 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 year ended December 31, 2010 and 2009 was approximately $254,000 and $342,000, respectively, which is included in selling, general, and administrative expenses in the Consolidated Statements of Operations.

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:

	2010	2009
Dividend yield	0.00%	0.00%
Stock volatility	136.75%	138.76%
Average Risk-free interest rate	2.26%	2.45%
Average option term (years)	4	4

Recently Adopted and Issued Accounting Pronouncements

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 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 during the first quarter of 2010.

In April 2010, the FASB issued an accounting standards update on stock compensation which addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. This new accounting guidance clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The accounting guidance is effective for interim and annual periods beginning on or after December 15, 2010 and is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued an accounting standards update on the disclosure about the credit quality of financing receivables and the allowance for credit losses. This update requires additional disclosures that facilitate financial statement users' evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The update makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, and the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses. These disclosures, as of the end of a reporting period, are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occur during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company does not expect this accounting standards update to have a material effect on the consolidated financial statements other than the new disclosures required by the update.

In December 2010, the FASB issued an accounting standards update on when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This update provides amendments to accounting standards on Intangibles and Goodwill that requires an entity to perform Step 2 impairment test even if a reporting unit has zero or negative carrying amount. Step 1 tests whether the carrying amount of a reporting unit exceeds its fair value. Previously reporting units with zero or negative carrying value passed Step 1 because the fair value was generally greater than zero. Step 2 requires impairment testing and impairment valuation be calculated in between annual tests if an event or circumstances indicate that it is more likely than not that goodwill has been impaired. The accounting guidance is effective beginning January 1, 2011. As a result of this standard, goodwill impairments may be reported sooner than under current practice. The Company does not expect this standard issuance to have a material impact on the consolidated financial statements.

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could be affected by those estimates.

4. Intangible Assets

Identifiable intangible assets, as of December 31, 2010, are comprised of:

	Trademarks	Intellectual Property	Totals
Balance as of January 01, 2010	$ 402,897	$ 86,397	$ 489,294
Amortization	(67,952)	(12,342)	(80,294)
Balance as of December 31, 2010	$ 334,945	$ 74,055	$ 409,000

Identifiable intangible assets, as of December 31, 2009, are comprised of:

	Trademarks	Intellectual Property	Totals
Balance as of January 01, 2009	$ 721,871	$ 89,037	$ 810,908
Amortization	(75,974)	0	(75,974)
Impairment	(243,000)	(2,640)	(245,640)
Balance as of December 31, 2009	$ 402,897	$ 86,397	$ 489,294

Aggregate amortization expense for each of the next five years subsequent to December 31, 2010, will be approximately $80,000 per year.

5. Prepaid Expenses and Other Current Assets

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

	2010	2009
Prepaid expenses	$ 98,776	$ 126,061
Inventory	4,243	1,586
Notes receivable	-	3,000
Total	$ 103,009	$ 130,647

6. Property and Equipment

At December 31, 2010 and 2009, property and equipment is comprised of the following:

	2010	2009
Network equipment	$ 5,148,119	$ 5,122,742
Furniture and fixtures	434,132	434,132
Computer equipment and software	1,389,273	1,270,417
Leasehold improvements	3,409,915	3,296,923
Assets in Progress	3,345	17,000
	10,384,784	10,141,214
Less accumulated depreciation and amortization, including approximately $4,300 and $24,000 under capital and equipment financing leases in 2010 and 2009, respectively.	(9,260,386)	(8,476,631)
Total	$ 1,124,398	$ 1,664,583

7. Restricted Cash

As of December 31, 2010 and 2009, the Company had approximately $533,000 and $417,000, respectively, 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 for certain of the Company's non-cancelable operating leases for office facilities and to secure a license to do business.

8. Discontinued Operations

In an effort to streamline operations, reduce expenses, and focus on the development of the Company's corporate services and carrier services segments, the Company eliminated the consumer services segment and restructured its overall operations. The Company's board of director's authorized these actions at a board meeting held on February 17, 2009. As a result of these actions, the three (3) international offices, reported under its Dubai subsidiary, were closed, and twenty-six (26) employees and eleven (11) consultants were terminated. In accordance with requirements under U.S. GAAP for impairment of long-lived assets, the Company has classified the operating results of its consumer services segment as a discontinued operation in the accompanying consolidated financial statements. The December 31, 2010 and 2009 consolidated 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 December 31, 2010 and December 31, 2009:

	December 31, 2010	December 31, 2009
Property and equipment, net	$ 12,449	$ 32,283
Total current assets reclassified to discontinued operations	$ 12,449	$ 32,283
Capital Lease obligations, current portion	$ 99,517	$ 99,517
Accounts payable and accrued expenses	65,757	260,777
Current liabilities reclassified to discontinued operations	$ 165,274	$ 360,294

The following is a summary of the operating results of the discontinued operations for the years ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Revenues	$ 7,617	$ 443,459
Cost of revenues	780	(350,940)
Depreciation and amortization	(19,834)	(352,409)
Loss on impairment of assets		(755,953)
Selling, general and administrative	(820)	(656,205)
Advertising and marketing		(2,749)
Other income (expense)		4
Net income (loss)	$ (12,257)	$ (1,674,793)

9. Accounts Payable and Accrued Expenses

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

	2010	2009
Trade accounts payable	$ 7,773,241	$ 7,784,952
Accrued expenses	622,944	718,212
Accrued payroll and vacation	140,341	217,984
Cost accrual	2,752	27,898
Interest Payable	291,782	199,939
Deferred revenue	149,545	121,122
Other	198,069	193,765
	$ 9,178,674	$ 9,263,872

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

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

	2010	2009
Promissory notes payable - related parties	$ 2,420,625	$ 1,682,187
Promissory notes payable - non-related parties	683,870	725,000
Capital lease/equipment financing obligations	4,550	17,418
Total Promissory notes payable and capital lease/equipment financing Obligations	3,109,045	2,424,605
Less current portion capital lease/equipment financing obligations	(4,550)	(14,831)
Less current portion Promissory notes payable - related parties	(2,420,625)	(1,682,187)
Less current portion Promissory notes payable - non-related parties	(683,870)	(725,000)
	$ -	$ 2,587

Promissory Notes Payable – Non-Related Parties

During February 2004, the Company entered into a settlement agreement with a vendor in Haiti providing for, among other things, payment by the Company of $600,000, of which $450,000 was promptly paid, and the Company's agreement to make 12 monthly payments for the remaining $150,000. In return, the vendor agreed to restore the Company's ability to terminate telecommunications traffic to Haiti at a favorable fixed rate. The vendor never complied with its obligations under the agreement, and the Company therefore did not make its remaining payments. Under Haitian law, the vendor's ability to pursue payment of the remaining amount has expired under the statute of limitations for contractual claims. The remaining balance was extinguished on the Company's books during September 2010.

During 2008, the Company borrowed an aggregate of $375,000 from several stockholders. The loans are evidenced by two (2) promissory notes which matured on various dates during the year ended December 31, 2010, and bear interest at the rate of 10 percent (10%) per annum. Principal payments for the year ending December 31, 2010 totaled $41,130. Notes not repaid by their respective maturity dates automatically convert to demand notes, and the principal sum and all accrued interest on the notes become payable in full upon ten (10) days notice from the lender. Each note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. At December 31, 2010, approximately $333,870 remains outstanding and is now payable on demand. However, neither lender has made a demand for payment.

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 extended 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 conversion. 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. On November 8, 2010, the maturity date was extended again to February 8, 2011. The Amended Note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. If not repaid by the maturity date, The Amended Note automatically converts to a demand note, and the principal sum and all accrued interest becomes payable in full upon ten (10) days notice from the lender. At December 31, 2010, the Amended Note remains outstanding. While the note is now payable on demand, the lender has not made a demand for payment.

On March 30, 2010, the Company borrowed $100,000 from a non-related party. This loan is evidenced by a promissory note which matured on April 14, 2010 and bears interest at the rate of ten percent (10%) per annum. On June 8, 2010, the lender converted the $100,000 note into 714,286 shares of common stock and five-year warrants to purchase a total of 357,144 shares of common stock, one-half of which are exercisable at 125% of the closing price of the Company's common stock on the day before closing, and the balance are exercisable at 150% of such price.

On December 22, 2010, the Company borrowed $250,000 from a non-related party, evidenced by a promissory note which matured in January, 2011 and bears interest at the rate of three and a quarter percent (3.25%) per annum. At December 31, 2010 the balance remains outstanding, for which the lender is granted a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. The lender has not made a demand for payment.

Promissory Notes Payable – Related Parties

During 2007, the Company borrowed an aggregate of $250,000 from Director Marvin Rosen, evidenced by two (2) promissory notes each of which are payable in 24 equal monthly installments of principal and interest at the rate of ten percent (10%) per annum, commencing January 18, 2008 and January 19, 2008 respectively, provided that the lender has the right to demand payment of all unpaid principal and interest at any time after 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. Principal payments through December 31, 2010, total $107,843. 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 conversion. As of December 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 $275,000 from this director, evidenced by four (4) promissory notes, which matured at different dates throughout 2008 and bear interest at the rate of ten percent (10%) per annum. 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 conversion. On May 19, 2010, the $210,552 balance of indebtedness evidenced by these promissory notes was converted to 1,503,943 shares of common stock, and five year warrants to purchase a total of 751,972 shares of common stock, one-half which are exercisable at 125% of the closing price of the company's common stock the day before conversion, and the balance are exercisable at 150% of such price. No balance remains due under these promissory notes.

During 2009, the Company borrowed an additional $1,140,268 from this director, evidenced by fourteen (14) promissory notes, which matured at various dates throughout 2009 and bear interest at rates ranging from three percent (3%) to ten percent (10%) per annum. Each note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. Notes not repaid by the maturity date, automatically converted to demand notes, and the principal sums and all accrued interest for those notes become payable in full upon ten (10) days notice from the lender. However, the Company has not received demand for payment. On May 19, 2010, Marvin Rosen converted $39,448 of indebtedness evidenced by one (1) of the promissory notes into 281,772 shares of common stock and five year warrants to purchase a total of 140,886 shares of common stock, one-half which are exercisable at 125% of the closing price of the Company's common stock the day before conversion, and the balance exercisable at 150% of such price. On June 9, 2010, Marvin Rosen converted $116,000 of indebtedness evidenced by three (3) of the promissory notes into 828,572 shares of common stock and five year warrants to purchase a total of 414,286 shares of common stock, one-half which are exercisable at 125% of the closing price of the Company's common stock the day before conversion, and the balance are exercisable at 150% of such price. On July 22, 2010, Marvin Rosen converted $122,000 into 871,429 shares of common stock and five year warrants to purchase a total of 435,716 shares of common stock, one-half which are exercisable at 125% of the closing price the day before conversion, and the balance of warrants are exercisable at 150% of such price. An additional $116,800 of indebtedness was converted on September 17, 2010, into 834,286 shares of common stock and five year warrants to purchase a total of 417,144 shares of common stock, one-half which are exercisable at 125% of the closing price the day before conversion, and the balance are exercisable at 150% of such price. At December 31, 2010, eight (8) of the promissory notes in the aggregate amount of $746,020 remain outstanding.

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 matured on July 20, 2009, and bears an interest rate of eight percent (8%) per annum. The note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. On July 20, 2009, the note became a demand note, although the Company has not received a demand for payment. This $125,000 note remains outstanding at December 31, 2010.

During 2010, the Company borrowed an aggregate of $1,750,000 from a director, Marvin Rosen. These loans were evidenced by twenty-five (25) promissory notes, each bearing interest at the rate of three and a quarter percent (3.25%) per annum with maturities extending through January 2011, at which point the notes automatically converted to demand notes, and the principal sum and all accrued interest for each note is now payable in full upon ten (10) days notice from the lender. Each note also grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable. As of December 31, 2010, $1,463,000 remains due under twenty-two (22) of these promissory notes. 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 December 31, 2010, are as follows:

		December 31, 2010
Total minimum payments	$	4,686
Less amount representing interest		(136)
Present value of minimum payments		4,550
Less current portion		(4,550)
Total long-term portion	$	-

11. Income Taxes

Due to the operating losses incurred, the Company has no current income tax provision for the years ended December 31, 2010 and 2009. The provision of income taxes consists of the following:

		2010		2009
Deferred				
Federal	$	(1,820,000)	$	(3,192,000)
State		(2,000)		(59,000)
		(1,822,000)		(3,251,000)
Change in valuation allowance		1,822,000		3,251,000
	$	-	$	-

The following reconciles the Federal statutory tax rate to the effective income tax rate:

	2010	2009
	%	%
Federal statutory rate	34.0	34.0
State net of federal tax	0.4	0.6
Other	(0.0)	(0.7)
Change in valuation allowance	(34.4)	(33.9)
Effective income tax rate	-	-

The components of the Company's deferred tax assets and liability consist of approximately the following at December 31, 2010 and 2009 respectively:

		2010		2009
Deferred tax assets				
Net operating losses	$	36,112,000	$	34,304,000
Allowance for doubtful accounts		118,000		205,000
Accrued liabilities and other		959,000		934,000
Property and equipment		4,726,000		4,650,000
		41,915,000		40,093,000
Deferred tax liability				
Property and equipment		-		-
Deferred tax asset, net		41,915,000		40,093,000
Less valuation allowance		(41,915,000)		(40,093,000)
	$	-	$	-

The Company has available at December 31, 2010 and 2009 approximately $106,211,000 and $100,989,000 respectively, of unused net operating loss carry forwards that may be applied against future taxable income, which expire in various years from 2012 to 2030. Under the Tax Reform act of 1986, the amounts of and benefits from net operating loss carry forwards and credits may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to a cumulative ownership change of more than 50%, as defined, over a three year period. The amount of such limitation, if any has not been determined.

Management of the Company had decided to fully reserve for its net deferred tax assets, as it is more likely than not that the Company will not be able to utilize these deferred tax assets against future taxable income, coupled with certain limitations on the utilization of the net operating losses due to various changes in ownership over the past several years.

12. Commitments and Contingencies

Leases

The Company has various non-cancelable operating lease agreements for office facilities. A summary of the lease commitments under non-cancelable leases for years ending subsequent to December 31, 2010, are approximately as follows:

Year Ending December 31:	
2011	$ 967,022
2012	1,070,533
2013	1,128,063
2014	1,099,338
2015	891,097
Thereafter	-
	$ 5,156,053

Rent expense for all operating leases was approximately $1,141,000 and $1,010,000 for the years ended December 31, 2010 and 2009, respectively. Certain of the Company's leases include fixed rent escalation schedules or rent escalations based upon a fixed percentage. The Company recognizes rent expense (including escalations) on a straight-line basis over the lease term. As of December 31, 2010, the Company has no outstanding purchase commitments with any equipment vendors.

Legal Matters

On July 30, 2008, a vendor that provides management consulting and software systems services filed a complaint in the Supreme Court for 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 (the "PSLA") and a Master Software License Agreement (the "MSLA"). This complaint asserted claims for relief against the Company for breach of contract, failure to pay to plaintiff moneys allegedly due under the terms of the PSLA, violation of the terms of the MSLA, and prejudgment interest and costs. On September 17, 2008, the Company filed its Answer and 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 damages, including full repayment of the amounts which the Company paid to the plaintiff for its failed development effort. On June 25, 2010, the parties entered into a Confidential Settlement Agreement resolving the litigation, providing for the mutual release of all claims, and agreeing to the dismissal of the case. Further proceedings have been stayed pending payment of the Company's obligations under the agreement, the amount of which is not considered material. To date, the Company has complied with its payment obligations. The accompanying consolidated financial statements give effect to the financial impact of the Confidential Settlement Agreement on the Company.

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. On October 23, 2009, the Company filed its Answer and Counterclaim, 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 certain products and services that included the GIPS software. On June 1, 2010, the parties entered into a Confidential Settlement Agreement resolving the litigation, and providing for the payment of certain amounts to GIPS, the amount of which was not considered material, and the exchange of mutual releases. The Company paid the amounts due under the agreement and the proceeding was dismissed "with prejudice". The accompanying consolidated financial statements give effect to the financial impact of the Confidential Settlement Agreement on the Company.

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. By a Second Amendment to the Stipulation of Settlement dated August 12, 2010, the parties agreed to further modify the payment schedule and not to enforce the judgment or execute the warrant as long as the Company complies with its payment obligations under this further amendment to the stipulation. The Company has complied with its payment and other obligations under the Stipulation and Amendments and all parties have signed a Stipulation of Discontinuance without prejudice of the action.

On June 14, 2010, three individuals filed an action against a former customer of the Company and other associated persons, and against the Company, in New York State Court, County of Kings (Index No. 24255/09). The plaintiffs alleged that the non-Fusion defendants accepted funds from the plaintiffs for investment in real estate, but subsequently used some or all of those funds for other purposes. The plaintiffs further alleged that the non-Fusion defendants made certain payments to the Company and they seek repayment of those sums from the Company in the amount of $237,913 plus interest. The Company believes that the plaintiffs' claims are without merit as the bank account information provided by the plaintiffs themselves shows that the majority of the funds allegedly paid to the Company were actually paid to other non-affiliated entities. Moreover, those funds that were received by the Company from the non-Fusion defendants were payment for specific telecommunications equipment and services purchased by the non-Fusion defendants from the Company, and the Company had no knowledge of any alleged misuse of funds by the non-Fusion defendants. The Company has prepared and filed its answer to the complaint, and intends to vigorously defend itself. As 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, no adjustment has been made in the Company's accompanying consolidated financial statements because of this claim.

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 any such claims or actions will have a material effect on the Company's operations or financial condition. In addition, due to the regulatory nature of the telecommunications industry, the Company periodically receives and responds to various inquiries from state and federal regulatory agencies. Management does not expect the outcome of any such regulatory inquiries to have a material impact on the Company's operations or financial condition.

13. Equity Transactions

Preferred Stock

On September 10, 2010, an accredited investor exercised his rights to convert 700 shares of preferred stock Series A-3, into 843,373 shares of common stock.

As of December 31, 2010, the Company has authorized 10,000,000 shares of preferred stock. As of December 31, 2010, there were 7,295 shares of preferred stock (Series A-1, A-2 and A-4) issued and outstanding.

Dividends

The holders of the Series A-1, A-2 and A-4 Preferred Stock are entitled to receive cumulative dividends at the rate of 8% per annum payable in arrears, when as declared by the Company's board of directors, on January 1 of each year, commencing on January 1, 2008.

Common Stock

During 2010, the Company entered into various subscription agreements with accredited investors and certain directors of the Company. The Company raised proceeds of approximately $4,156,200 in these private placements by issuing 29,821,608 shares of common stock and warrants to purchase 15,891,238 shares of common stock. In connection with these transactions, the Company incurred approximately $578,699 of fees to a placement agent, which includes $528,000 of cash and warrants to purchase 3,142,862 shares of common stock.

As discussed in Note 10, the Company converted approximately $945,000 of promissory notes and accrued interest into 6,970,036 shares of common stock and warrants to purchase 1,645,725 shares of common stock.

During 2010, the Company issued 2,248,217 shares of common stock and warrants to purchase 449,645 shares of common stock in connection with $321,417 of proceeds released from escrow.

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 $.01 per share, and 10,000,000 shares shall be preferred stock, par value $0.01 per share.

In September 2008, the Company entered into a settlement agreement with a vendor providing, in part, that the Company issue common stock in the amount of $75,000 to the vendor in settlement of a debt. However, due to a failure by the vendor to perform its obligations under the settlement agreement, the Company did not actually issue the shares, resulting in a transfer from equity to escrow payable in the amount of $75,000, and a correction to the number of shares previously disclosed as issued and outstanding in the amount of 416,667 shares.

As of December 31, 2010, the Company has authorized 225,000,000 shares of common stock. Subsequent to December 31, 2010, as indicated in Note 19 – Subsequent Events, the Company filed a Certificate of Amendment to its Certificate of Incorporation to increase the number of common shares it is authorized to issue to 300,000,000. As of December 31, 2010, there were 132,010,498 shares of common stock issued and outstanding

Stock Options and Warrants

Under the Company's 2009 Plan, the Company has reserved 7,000,000 shares of common stock for issuance to employees at exercise prices determined by the board of directors. Options under the plan typically vest in annual increments over a three or four year period, expire ten years from the date of grant and are issued at exercise prices no less than 100% of the fair market value at the time of grant.

The following summary presents information regarding outstanding options as of December 31, 2010 and 2009 and changes during the years then ended with regard to all options:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term
Outstanding at January 1, 2009	4,096,609	$ 1.72	7.10 years
Granted in 2009	1,358,000	0.11	
Cancelled or expired in 2009	(812,085)	2.06	
Outstanding at December 31, 2009	4,642,524	1.19	6.28 years
Granted in 2010	1,458,500	0.12	
Cancelled or expired in 2010	(378,649)	0.48	
Outstanding at December 31, 2010	5,722,375	$ 0.96	6.59 years
Exercisable at December 31, 2010	3,167,046	$ 1.62	5.28 years

The following table summarizes information about stock options outstanding as of December 31, 2010:

Range of Exercise Prices	Options Outstanding	Weighted Average Life (Years)	Weighted Average Price	Options Exercisable	Weighted Average Price
$0.09 - $0.10	27,500	8.15	$ 0.09	-	$ 0.00
$0.11 - $0.11	1,114,000	7.17	0.11	384,002	0.11
$0.12 - $0.12	1,321,000	9.18	0.12	-	0.00
$0.13 - $0.25	163,500	7.93	0.17	34,250	0.19
$0.31 - $0.31	1,085,500	6.17	0.31	764,419	0.31
$0.35 - $0.68	17,000	6.90	0.39	12,625	0.39
$0.69 - $0.69	726,750	5.68	0.69	707,250	0.69
$0.75 - $2.80	667,600	4.89	2.51	664,975	2.51
$3.15 - $4.70	517,525	3.17	4.15	517,525	4.15
$6.45 - $6.45	82,000	2.84	6.45	82,000	6.45
	5,772,375	6.59	$ 0.96	3,167,046	$ 1.62

The weighted-average estimated fair value of stock options granted was $0.12 and $0.11 during the years ended December 31, 2010 and 2009 respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2010 and 2009 was $0 and $0, respectively. As of December 31, 2010, there was approximately $89,000 of total unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under the Company's stock incentive plan which is expected to be recognized over a weighted-average period of 1.89 years.

The Company, as part of various debt and other agreements, have issued warrants to purchase the Company's common stock. The following summarizes the information relating to warrants issued and the activity during the years ended December 31, 2010 and 2009:

	Number of Warrants	Per Share Warrant Price	Weighted Average Warrant Price
Shares under warrants at January 1, 2009	$ 19,775,479	$ 0.12-8.58	$ 3.69
Issued in 2009	9,054,653	0.11-0.22	0.15
Exercised in 2009	-	-	-
Expired in 2009	-	-	-
Shares under warrants at December 31, 2009	28,830,132	0.12-8.58	2.58
Issued in 2010	21,129,470	0.14-0.21	0.15
Exercised in 2010	-	-	-
Expired in 2010	(7,788,505)	2.97-8.58	8.48
Shares under warrants at December 31, 2010	$ 42,171,097	$ 0.11-1.67	$ 0.27

All warrants are fully exercisable upon issuance.

14. Settlements of Debt

The Company had a prior settlement agreement with a carrier vendor in a foreign country in the amount of $600,000, of which $450,000 was promptly paid, and the remaining $150,000 balance was to be paid monthly over a twelve month period. In return, the vendor agreed to comply with its obligations under the agreement. Due to the vendor's failure to comply with the terms of the settlement agreement, the Company did not make its remaining payments. Under the laws of that country, the vendor's ability to pursue payment of the remaining amount has expired under the statute of limitation for contractual claims. The remaining balance was extinguished and the Company recorded a gain on settlement of $150,000 during the year ended December 31, 2010.

The Company filed a billing dispute with a vendor in the year ended December 31, 2009, that was settled in February, 2010, for which the Company recognized a gain on settlement of $34,500.

The Company filed a rate dispute in 2009 with a carrier vendor that was settled in March 2010. The settlement resulted in a loss of $(25,000).

15. Profit Sharing Plan

The Company has a defined contribution profit sharing plan, which covers all employees who meet certain eligibility requirements. Contributions to the plan are made at the discretion of the board of directors. No contributions to the profit sharing plan were made for the years ended December 31, 2010 and 2009.

16. Concentrations

Major Customers

During 2010 and 2009, five (5) customers of the Company accounted for revenues exceeding 53% and 66%, respectively in total, and at least 5% individually of the Company's total revenues. These customer revenues were all in the carrier services segment. Revenues earned from these customers were approximately $22,254,000 and $27,209,000, respectively. At December 31, 2010 and 2009, the amounts owed to the Company by these customers were approximately $1,543,000 and $1,368,000 or 50.3% and 54.7% respectively.

Geographic Concentrations

The Company's operations are significantly influenced by economic factors and risks inherent in conducting business in foreign countries, including government regulations, currency restrictions and other factors that may significantly affect management's estimates and the Company's performance.

During 2010 and 2009, the Company generated approximate revenue from continuing operations from customers in the following countries:

	2010	2009
United States	$ 36,203,000	$ 38,213,000
Other	5,560,000	2,726,000
	$ 41,763,000	$ 40,939,000

Revenues by geographic area are based upon the location of the customers. The foreign long-lived assets by geographic area represent those assets physically used in the operations in each geographic area.

Credit Risk

The Company maintains its cash balances in financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution. These balances may at times, exceed federally insured limits.

17. Segment Information

The Company complies with the accounting and reporting requirements on Disclosures about Segments of an Enterprise and Related Information. The guidance requires disclosures of segment information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

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

The Company's segments and their principal activities consist of the following:

Carrier Services

Carrier Services includes the termination of carrier traffic utilizing VoIP technology as well as traditional TDM (circuit switched) technology. VoIP permits a less costly and more rapid interconnection between the Company and international telecommunications carriers, and generally provides better profit margins for the Company. The Company currently interconnects with over 270 carrier customers and vendors, and is working to expand its interconnection relationships, particularly with carriers in emerging markets.

Corporate Services and Other

The Company provides a wide variety of communications services to small and medium-sized corporations, as well as enterprise customers, including basic voice and data communications services, broadband Internet access, private line services, audio and web conferencing services, e-fax services, and a variety of other value-added services. These customers are sold through both the Company’s direct sales force and its partner sales program, which utilizes the efforts of independent their-party distributors to sell the Company’s products and services.

Operating segment information for 2010 and 2009 is summarized as follows:

	2010			
	Carrier Services	Corporate Services And Other	Corporate and Unallocated	Consolidated
Revenues	$ 40,018,573	$ 1,744,429	$ -	$ 41,763,002
Cost of revenues (exclusive of depreciation and amortization)	(36,778,723)	(1,051,399)	-	(37,830,121)
Depreciation and amortization	(833,339)	(14,542)	-	(847,881)
Loss on impairment of long-lived assets	(12,742)	(6,276)	-	(19,018)
Selling, general and administrative expenses	(5,426,205)	(3,421,269)	-	(8,847,474)
Advertising and marketing	-	(38,973)	-	(38,973)
Other income (expenses)	69,360	(36,118)	-	33,242
Total loss from continuing operations	(2,963,076)	(2,824,148)	-	(5,787,223)
Loss from discontinued operations	-	(12,257)	-	(12,257)
Net loss	$ (2,963,076)	$ (2,836,405)	$ -	$ (5,799,480)
Total Assets	$ 3,181,281	$ 1,739,946	$ 56,926	$ 4,978,153
Capital expenditures	$ 116,337	$ -	$ 107,234	$ 223,571

	2009			
	Carrier Services	Corporate Services And Other	Corporate and Unallocated	Consolidated
Revenues	$ 39,870,831	$ 1,067,784	$ -	$ 40,938,615
Cost of revenues (exclusive of depreciation and amortization)	(36,992,964)	(673,535)	112,772	(37,553,727)
Depreciation and amortization	(1,097,802)	(263,996)	-	(1,361,798)
Loss on impairment of long-lived assets	-	-	(243,000)	(243,000)
Selling, general and administrative expenses	(5,920,371)	(3,295,921)	-	(9,216,292)
Advertising and marketing	(2,170)	(40,535)	-	(42,705)
Other income (expenses)	(276,913)	(155,599)	-	(432,512)
Total loss from continuing operations	(4,419,389)	(3,361,802)	(130,228)	(7,911,419)
Loss from discontinued operations	-	(1,674,793)	-	(1,674,793)
Net loss	$ (4,419,389)	$ (5,036,595)	$ (130,228)	$ (9,586,212)
Total Assets	$ 4,144,000	$ 748,429	$ 531,922	$ 5,424,351
Capital expenditures	$ 35,817	$ -	$ 18,832	$ 54,649

The Company employs engineering, operations, information services, and finance resources that service across both the carrier and corporate business segments and across multiple products and services. Depreciation and indirect operating expenses were allocated to each segment based upon its respective percent utilization of the personnel resources. The amounts reflected as Corporate & Unallocated represent those expenses that were not appropriate to allocate to a business segment or product line.

18. Selected Quarterly Results (Unaudited)

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,588,632	$ 9,727,200	$ 11,149,973	$ 11,297,197
Operating loss	(1,507,094)	(1,447,500)	(1,374,667)	(1,491,204)
Interest income	124	120	141	107
Interest expense	(49,591)	(54,716)	(42,662)	(34,236)
Gain on settlements of debt	9,500	-	150,000	-
Other	4,866	3,862	10,161	35,566
Income (loss) from continuing operations	(1,542,195)	(1,498,234)	(1,257,027)	(1,489,767)
Loss from discontinued operations	(1,373)	(86,982)	6,223	69,875
Net Loss	$ (1,543,568)	$ (1,585,216)	$ (1,250,804)	$ (1,419,892)
Basic and diluted net loss per common share:				
Loss from continuing operations	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)
Loss from discontinued operations	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

	2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,002,301	$ 8,649,762	$ 11,853,020	$ 11,433,533
Operating loss	(2,432,837)	(2,023,506)	(1,600,635)	(1,421,929)
Interest income	159	451	3,447	176
Interest expense	(95,940)	(119,841)	(112,893)	(58,786
Gain on settlements of debt	-	-	-	12,758
Other	2,214	1,279	1,992	(67,528)
Income (loss) from continuing operations	(2,526,404)	(2,141,617)	(1,708,089)	(1,535,309)
Loss from discontinued operations	(479,811)	(885,132)	(102,900)	(206,950)
Net Loss	$ (3,006,215)	$ (3,026,749)	$ (1,810,989)	$ (1,742,259)
Basic and diluted net loss per common share:				
Loss from continuing operations	$ (0.06)	$ (0.04)	$ (0.03)	$ (0.02)
Loss from discontinued operations	$ (0.01)	$ (0.02)	$ (0.00)	$ (0.00)

19. Subsequent Events

On January 21, 2011, the Company borrowed $20,000 from an individual that is also a director of the Company. The loan bears interest on the unpaid principal amount of the note from the date the note at the rate of 3.25% per annum. The note grants the lender a collateralized security interest, pari passu with other lenders, in the Company's accounts receivable.

During January, February and March 2011, the Company borrowed an aggregate of $832,000 from an individual that is also a director of the Company under eight (8) promissory note agreements. The loans, which, 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 will be payable in full upon ten (10) days notice from the lender. The notes also grant the lender a collateralized security interest, pari passu with other lenders, in the Company′s accounts receivable. The proceeds are being used for general working capital purposes.

On February 25, 2011, 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 235,000,000 shares to 310,000,000 shares, of which 300,000,000 shares shall be common stock, par value $.01 per share, and 10,000,000 shares shall be preferred stock, par value $0.01 per share.

SCHEDULE II

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions (Collections) Charged to Expense	Deductions from Reserves	Balance at End of Year
Allowance for Doubtful Accounts for the Years Ended:				
December 31, 2010	$ 538,600	$ 20,444	$ 189,420	$ 369,624
December 31, 2009	$ 634,580	$ 75,014	$ 170,994	$ 538,600
Tax Valuation Account for the Years Ended:				
December 31, 2010	$ 41,915,000	$ -	$ -	$ 41,915,000
December 31, 2009	$ 40,093,000	$ -	$ -	$,40,093,000

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification

I, Matthew D. Rosen, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2010 of Fusion Telecommunications International, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 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 the Company's supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under the Company's 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 the Company's 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) and I have disclosed, based on the Company's most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 13, 2011 By: /s/ **MATTHEW D. ROSEN**
Matthew D. Rosen
Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification

I, Gordon Hutchins, Jr., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2010 of Fusion Telecommunications International, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 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 the Company's supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under the Company's 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 the Company's 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) and I have disclosed, based on the Company's most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 13, 2011 By: /s/**GORDON HUTCHINS, JR.**
Gordon Hutchins, Jr.President,
Chief Operating Officer, and Acting Chief Financial Officer

Exhibit 32.1

Section 1350 Certification

In connection with the annual report of Fusion Telecommunications International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Matthew D. Rosen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

April 13, 2011 By: /s/ **MATTHEW D. ROSEN**
Matthew D. Rosen
Chief Executive Officer

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

Exhibit 32.2

Section 1350 Certification

In connection with the annual report of Fusion Telecommunications International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Gordon Hutchins, Jr., President, Chief Financial Officer, and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

April 13, 2011 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 Securities and Exchange Commission or its staff upon request.

PROMISSORY NOTE
and
SECURITY AGREEMENT

$___________	**___________**
Amount	**Date**

For value received, the undersigned maker ("Maker"), whose address is 420 Lexington Avenue, Suite 1718, New York, NY 10170, promises to pay to the order of ____________ ("Lender"), whose address is 912 Fifth Avenue, #5A, New York, NY 10035, the principal sum of ___________ Dollars ($_______) together with all interest accrued from the date of execution of the Note at the rate of 3.25 percent (3.25%) per annum upon the unpaid principal balance until the principal balance is paid in full, payable in U.S. Dollars at the Lender's address set forth above, or at such other address as Lender may designate. The principle sum and all accrued interest will be payable in full upon ten (10) days notice of demand from Lender.

If an event of default shall occur, neither the failure of the Lender to promptly exercise its right to declare the outstanding principal and accrued but unpaid interest hereunder to be immediately due and payable, nor the failure to exercise any other right or remedy the Lender may have for default, nor the acceptance by the Lender of late or partial payments shall constitute a waiver of such rights in connections with any future default on the part of the undersigned or any other person who may be liable hereunder.

This Note is to be construed and enforced according to the laws of the state of New York.

This Note is secured by the Maker's accounts receivable and Maker hereby grants Lender a security interest, pari passu with other lenders, in all such accounts receivable.

In order to perfect a security interest in the accounts receivable, the Maker, if and when requested by the Lender, agrees to execute and return to the Lender appropriate UCC-l financing statements.

Maker waives any right of exemption and waives presentment, protest and demand, notice of protest, demand, and/or dishonor and nonpayment of this Note.

Maker:
Fusion Telecommunications International, Inc., a Delaware corporation

By: __________________________________
Printed Name: Gordon Hutchins, Jr., as President, COO and Acting CFO
Date: _______________

TELECOMMUNICATIONS SERVICES AGREEMENT

THIS TELECOMMUNICATIONS SERVICES AGREEMENT is made and entered into as of the 20th day of September, 2006, by and between MCI Communications Services, Inc, a Delaware corporation with an address at 6665 North MacArthur Blvd, Irving, Texas 75039 and doing business as Verizon Business Services ("Verizon") on behalf of itself and its "Affiliates" (as hereinafter defined) and their respective successors and Fusion Telecommunications International Inc., a Delaware corporation with an address at 420 Lexington Avenue, Suite 1718, New York, New York 10170 ("Provider") on behalf of itself and its "Affiliates" (as hereinafter defined) and their respective successors.

RECITALS

WHEREAS, Provider is in the business of providing certain telecommunications services to other telecommunications companies; and

WHEREAS, Verizon desires to obtain from Provider the "Services" (defined in Section 1.12 herein) and further described in Attachment A which is attached to and made a part of this Agreement; and

WHEREAS, Provider and Verizon wish to set forth in this Agreement the exclusive terms and conditions under which Provider will provide the Services to Verizon.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

I. DEFINITIONS

1.1 "Affiliate" shall mean any entity controlling, controlled by or under common control (either directly or indirectly) with Verizon or Provider) as applicable, including any such entity that becomes a Verizon Affiliate or Provider Affiliate after the date of this Agreement.

1.2 "Agreement" shall mean this Telecommunications Services Agreement and all attachments or exhibits hereto, as the same may be amended. In the event of an inconsistency between this Telecommunications Services Agreement and any attachments or exhibits hereto, this Telecommunications Services Agreement takes precedence.

1.3 "Authorized Entity" shall have the meaning given in Section 3.2.

1.4 "Business Days' shall mean any day that is not a Saturday, Sunday or by law a national holiday in the United States.

1.5 "Business Hours" shall mean be hours between 8:00 AM EST and 5:00 PM EST during Business Days.

1.6 "Confidential Information" shall mean confidential or proprietary information (including without limitation this Agreement, technical and business plans, specifications, drawings, computer programs, network configurations, facilities deployment information, procedures, orders for services, usage information, Customer Proprietary Network Information ("CPNI") and carrier proprietary information as defined in 47 U.S.C. Section 222, and customer account data) that one party or its Affiliates ("Owner") may disclose to the other party or its Affiliates ("Recipient") **in** connection with the performance. or in anticipation or negotiation, of this Agreement and is disclosed by an Owner to a Recipient in document or other tangible form (including on magnetic tape) or by oral, visual or other means, and which should reasonably have been understood by such Recipient to be proprietary and confidential to such Owner, because of legends or other markings) the circumstances of the disclosure or the nature of the information itself.

1.7 "Customer') shall mean any corporation, company, entity or person to which Verizon or Provider (as applicable) furnishes services, whether under tariff or by contractual arrangement.

1.8 "Force Majeure Event" shall have the meaning given in Article XIll of this Agreement.

1.9 "Interruption" shall mean a failure of the Services to meet the applicable Specifications, unless such failure (a) is the result of a Force Majeure Event, or (b) results from, and begins and ends during the period of time that Verizon pre-approves for Scheduled Maintenance; provided that such Scheduled Maintenance is performed in accordance with this Agreement and occurs no more than once in any calendar month.

1.10 "Looping" shall mean a problem encountered in voice traffic routing in which the traffic returns to Verizon's Network, directly or indirectly.

1.11 "Provider's Network" shall mean any telecommunications equipment and facilities used by Provider or an Authorized Entity to provide the Services.

1.12 "Services" shall mean US originating/international terminating switched telecommunications services including voice, fax and data (analog/SDN/SW 64) calls.

1.13 "Specifications" shall have the meaning set forth in Article VII herein and, unless otherwise agreed in writing by the parties, shall conform to the applicable industry accepted technical specifications, as the same may be established from time to time. The term "Specifications" shall also include the technical specifications contained in any Attachment to this Agreement at the time of execution or subsequently added.

1.14 "Verizon Affiliate Agreement" shall have the meaning given in Section 4.3.

1.15 "Verizon Data" shall include, but not be limited to data transmissions (including the originating and destination numbers and IP addresses, date, time and duration of voice or data transmissions, and other data necessary for the establishment, billing or maintenance of the transmission), data containing personal and/or private information of Verizon, the Verizon Customer, its employees or authorized users of Verizon services, and other data provided by Verizon, its Verizon Affiliates and their respective agents in connection with the provision of Verizon services.

1.16 "Verizon's Network" shall mean the telecommunications equipment and facilities managed by Verizon to provide telecommunications services to its Customers.

Unless otherwise expressly defined in this Agreement all other terms used in this Agreement shall be accorded their usual and customary meanings in the telecommunications industry.

II. TERM AND TERMINATION

2.1 The term of this Agreement shall commence as of the date hereof and shall continue until terminated by either party as provided herein.

2.2 Either party may terminate this Agreement upon thirty (30) days advance written notice to the other party.

2.3 Upon termination of this Agreement or of any Services provided herenp.der, the parties shall work cooperatively to minimize any potential interruptions of service and or other disruptions or inconveniences to Verizon's Customers, and shall comply with any additional procedures as may be agreed upon in writing by the parties.

III. SERVICE AVAILABILITY; AUTHORIZED ENTITIES

3.2 Verizon acknowledges that Services may be provided in certain geographic areas through entities other than Provider. Provider represents and warrants to Verizon that (a) such entities are (or will be at the time Services are provided) Affiliates of Provider which Provider controls (each, an "Authorized Entity"), and (b) each such Authorized Entity shall manage and control the network on which Services are provided in its geographic area. All Services provided through an Authorized Entity shall be subject to, and governed by, all the terms and conditions of this Agreement as if such Services were furnished directly by Provider. In the event that Provider ceases to control any Authorized Entity or any Authorized Entity ceases to manage and control its network, Provider must notify Verizon in writing immediately. In such event, Verizon shall have the right, at its sole discretion and without liability, to terminate the Services being provided by such entity without notice.

3.3 Provider will insure that routes which it, or any Authorized Entity, provides to Verizon for Services will not loop. If Verizon discovers that any routes which it or any Authorized Entity, provides to Verizon for Services loop, Verizon may at its sole discretion and without liability, terminate the Services associated with such routes. Additionally, Verizon may. be entitled to remedies set forth in Article VII below. Provider acknowledges that continual looping on routes which carry Services may affect the parties overall business relationship and that failure by Provider to remedy such continual looping may result in a decision by Verizon in its sole discretion to terminate this Agreement immediately upon written notice to Provider, without incurring any termination liability.

IV. VERIZON AFFILIATES

4.1 Provider and Verizon agree that any Verizon Affiliate independently may obtain Services from Provider subject to, and governed by, all the terms and conditions of this Agreement (including, but not limited to, the prices set forth in Attachment A) as if such Services were purchased directly by the Verizon Affiliate. Any reference to Verizon in this Agreement with respect to Services purchased by a Verizon Affiliate shall be a reference to the applicable Verizon Affiliate. Any responsibility or liability of the Verizon Affiliate pursuant to this Section 4.1 or Section 4.3 is the responsibility or liability of the Verizon Affiliate alone and is not a joint responsibility or liability of Verizon and the Verizon Affiliate.

4.2 Provider acknowledges that Verizon Affiliates may have differing systems related to the purchasing of Services under this Agreement; such differing systems include, without limitation, ordering, provisioning, billing and trouble reporting systems. In the event that an Verizon Affiliates which uses systems, processes and procedures different from those set forth in this Agreement, elects to purchase Services under this Agreement, Provider agrees to use its best efforts to coordinate with the applicable Verizon Affiliate to exchange all necessary information and establish all necessary procedures for the provisioning of Services to the applicable Verizon Affiliate.

4.3 Provider and Verizon agree that any Verizon Affiliate, which is a party to an agreement with Provider or a Provider Affiliate for the provision of services materially the same as the Services provided herein (an "Verizon Affiliate Agreement"), shall have the right,. at its option and upon thirty (30) days' prior, written notice, to (a) substitute those certain pricing terms listed in Attachment A, in whole or in part, for the pricing terms contained in the Verizon Affiliate Agreement, or (b) terminate the Verizon Affiliate Agreement, without penalty, transfer the services provided there under to this Agreement, and thereafter order Services hereunder pursuant to Sections 4.1 and 4.2 above. To effect any change in the pricing under the Verizon Affiliate Agreement pursuant to clause (a) above. Provider agrees to enter into. or cause the applicable Provider Affiliate to enter into. an amendment to the Verizon Affiliate Agreement at the Verizon Affiliate′s request. Any such pricing change shall be effective retroactive to the date on which the Verizon Affiliate exercises its rights under clause (a) above. In the event that a Verizon Affiliate, which is not a party to this Agreement, enters into negotiations for a separate agreement with Provider or a Provider Affiliate for the provision of services materially the same as the Services provided herein, Provider agrees to offer, or cause the applicable Provider Affiliate to offer, pricing terms that are at least as favorable as those listed in Attachment A.

V. PAYMENT FOR SERVICES

5.1 The charges for Services provided to Verizon under this Agreement shall be determined in accordance with Attachment A. The rates set forth in Attachment A may be changed by Provider, provided that it has notified Verizon in writing of such rate changes (including rate(s) and corresponding calling code(s)) at least seven (7) calendar days prior to the effective date of any rate increase ("Rate Notice"). For avoidance of doubt, any rate increase shall not be effective until at least the 8th calendar day following the date of Rate Notice and any rate decrease shall be effective immediately upon the date of Rate Notice. Any Rate Notice shall be effective only if in writing and sent by email to email address MCI International Outbound Rates Admin@lists.mci.com during Business Hours and only if Verizon acknowledges receipt of the Rate Note within two (2) Business Days via email to Provider using return receipt or to a separate e-mail address provided by Provider. If Provider does not receive the confirmation of receipt from Verizon within such two (2) Business Day period, Provider shall, at least three (3)
Business Days prior to rate increase effective date, contact Verizon via facsimile transmission to the fax number
(972) 729-6026 (as evidenced by confirmation) during Business Hours and such correspondence shall include a legible printed copy of the Rate Notice and evidence of its original sending date (e,g" a printed copy of the "sent" email). In the event of any such increase in rates, Verizon may in its sole discretion terminate this Agreement, or some or all of the affected Services, immediately upon written notice to Provider, without incurring any termination liability.

5.2 Unless otherwise specified In Attachment A and except with respect to Mexico, the charges shall be billed by Provider to Verizon using a billing increment of one (I) second for the initial period and one (I) second increments for additional periods after the initial period. For traffic terminated in Mexico, the charges shall be billed by Provider to Verizon using a billing increment of sixty (60) seconds for the initial period and then rounded up to the nearest sixty (60) second increment for additional periods after the initial period. The billing increments set forth in this Section 5.2 may be changed only by written amendment to this Agreement signed by the parties.

5.3 Provider shall deliver accurate itemized invoices on a calendar month basis 'for the Services to Verizon at the address provided by Verizon fifteen (15) days after the end of such calendar month. Invoices shall be in U.S. Dollars and shall contain a summary of the charges, all Call Detail Records (including, but not limited to, information on date, time, origin, destination, duration and all other details to back up the information in the invoice and CDRs), and such other information as mutually agreed upon by the parties in writing. Under no circumstances shall Verizon be liable for any charges for Provider's Services or third-party provided services, if any, that are not billed by Provider within ninety (90) days after the charges were initially incurred. Invoices shall be provided to Verizon in hard copy and in electronic format; all back-up or supporting information, including without limitation CDRs, shall be provided to Verizon in electronic format. All notices and communications related to invoicing and payment matters shall be in writing and shall be addressed to:

Verizon
5055 North Point Parkway
Alpharetta, Georgia 30022
Attn: Heather Brown
Fax: 678-259-5324

5.4 Subject to Section 5.6 below, Verizon shall pay any undisputed Provider invoice, or undisputed portion of an invoice, within thirty (30) days after Verizon's receipt of Provider's complete invoice. Payment shall be by wire transfer or by a check drawn on immediately available funds in a United States bank or by such other means as shall be mutually agreed upon by the parties.

5.5 Verizon shall have the right to dispute in good faith any charges included on Provider invoices. In the event of any such dispute, the portion of the invoice that is undisputed shall be paid as provided in Section 5,4 hereof. Verizon shall have the right to withhold payment of the disputed amount, provided that Verizon gives Provider notice of the amount and reason for the dispute at the time the payment is withheld. All invoicing disputes that cannot be resolved by negotiation shall be resolved in accordance with the provisions of Article XXI herein. Notwithstanding any provisions contained in this Agreement to the contrary, Verizon's failure to pay any invoice or portion thereof as a result of an unresolved dispute shall not be considered a breach of the terms and provisions of this Agreement.

5.6 Provider, in its sole discretion, shall have the right to offset any undisputed amounts owed by Verizon or any Verizon Affiliate (collectively "Verizon Entities") to Provider or any Provider Affiliate (collectively "Provider Entities") against any amounts owed by Provider Entities to Verizon Entities. The applicable Provider Entity shall receive credit toward the amount of such offset and Verizon shall not invoice or re-invoice the offset amount. Verizon, in its sole discretion, shall have the right to offset any undisputed amounts owed by Provider Entities to Verizon Entities against any undisputed amounts owed by Verizon Entities to Provider Entities. The applicable Verizon Entity shall receive credit toward the amount of such offset and Provider Entity shall not invoice or reinvoice the offset amount. All net amounts owed by either party shall be remitted in accordance with applicable contract terms, and all disputed items shall be administered in accordance with applicable contract terms

5.7 If Verizon reasonably believes that the rates for Services can no longer be considered to be competitive compared to charges for substantially comparable services available in the marketplace, Verizon is entitled by giving written notice to Provider to require Provider to re-negotiate the rates, in good faith to reach a mutually acceptable revision. If Verizon can provide Provider with documentary evidence that services substantially the same as the Services, and containing the same or comparable contract terms and conditions, are available to Verizon at more competitive prices (the "Benchmarked Prices"), then Provider shall revise the rates under this Agreement accordingly and such rates beginning invoicing the Benchmarked Prices the next month. Verizon has the right to immediately terminate this Agreement, without liability nor penalty of any kind, in the event that Provider does not within a (30) day period of Provider's having been presented with Verizon's documentary evidence of the Benchmarked Prices, lower the rates for Services.

VI. LEGAL AND REGULATORY REOUIREMENTS

6.1 At all times during the term of this Agreement, each party shall comply with all present and future applicable laws, rules and regulations relating to or affecting the performance of its obligations hereunder, and shall bear all costs and risks in connection with such compliance. Each party shall secure and maintain (a) all licenses, permits and authorizations from aU governmental agencies, necessary for the performance of its obligations hereunder; including without limitation, registering or filing this Agreement, if required, with the appropriate governmental agency and (b) all property rights necessary for its equipment, network and facilities, including, but not limited to, rights of way, easements, leases, and licenses (all such requirements and rights are hereinafter referred to as "Required Rights"). Each party shall comply with all laws governing the activities of its business, including, without limitation, any rules, regulations or guidelines issued by any telecommunications regulatory body or administration regarding the manner in which the Service may be provided. Notwithstanding any other provisions of this Agreement, if such Required Rights are not obtained and maintained by either party, that party shall be in default hereunder and, in addition to any other remedies it may have at law and or in equity, the other party may terminate this Agreement in whole or with respect to the affected Services immediately upon notice and without incurring any termination liability.

6.2 This Agreement is made expressly subject to an present and future valid orders and regulations of any regulatory body having jurisdiction over the subject matter hereof and to the laws of the United States of America. Any of its states, or any other government or governmental agency having jurisdiction. In the event this Agreement or any of its provisions, shall be found contrary to or in conflict with any such order, rule regulation or law, this Agreement shall be deemed modified to the extent necessary to comply with any such order, rule, regulation or law and shall be modified, by language agreed upon by the parties, in such a way as is consistent with the form, intent and purpose of this Agreement.

6.3 The parties agree that this Agreement, to the extent that it is subject to FCC regulation, is an inter-carrier agreement that is not subject to the filing requirements of Section 211(a) of the Communications Act of 1934 (47 U.S.C. § 211 (a)) as implemented in 47 C.F.R. § 43.51. The provision of Services to Verizon shall be governed exclusively by this Agreement, and shall not be affected by any local state or federal tariff existing as of the date of this Agreement or subsequently filed by Provider or any Authorized Entity.

VII. SERVICE SPECIFICATIONS. MAINTENANCE, REPAIR AND TESTING

7.1
The Services shall meet the applicable Specifications set forth below and elsewhere in this Agreement, including but not limited to Section 7.2, and shall at all times be provided in accordance with industry standards (including without limitation ITU standards). An Interruption shall be measured from the time that the Interruption starts to the time of full compliance with the applicable Specifications. In the event that there is an Interruption, Verizon shall be entitled to receive a credit as set forth below:

(i) Calculate the total minute duration of the affected call (referred to as "D")
(ii) Determine the applicable rate per minute for such call (referred to as "R")
(iii) Credit amount owed to Verizon for such call = "D" x "R"

(iv) Verizon may choose to have the total credit amount deducted directly from Verizon's next succeeding monthly invoice or to have Provider submit a check to Verizon in the amount of the total credit

7.2 Quality of Service Specifications. Provider is responsible for delivering a quality of service that is at all times acceptable to Verizon. Such quality of service will be measured by the following metrics: Answer Seizure Ratio ("ASR") percentage, post dial delay, and any other metric determined by Verizon to be critical to the quality of the Services provided hereunder, Provider shall return or release back to Verizon's network any and all uncompleted calls or calls that encounter congestion. Provider's Services shall be capable of supporting fax calls and voice –band data calls. Provider will work in good faith with Verizon's International Network Management Center to take immediate action to correct any problem whether it has received notice of any such problem from Verizon or has detected it from its own monitoring. At all times, Provider must meet or exceed the quality of service metrics of other providers of similar services to Verizon as determined solely by Verizon. Provider will dedicate appropriate resources to the Verizon account in order to meet or exceed these quality of service metrics. Provider will monitor and review its quality of service metrics on a daily basis in order to assure that they are within the requirements of Verizon. In addition, at Verizon's discretion, Provider will work with Verizon's Engineering groups in order to continue to improve the quality of the Services on an on-going basis. Failure by Provider to deliver the quality of service that is acceptable to Verizon or failure by Provider to return any uncompleted calls to Verizon's network for completion may result in a decision by Verizon in its sole discretion to terminate this Agreement, or any or all of the affected services, immediately upon written notice to Provider, without incurring any termination liability.

7.3 Provider shall at all times comply, or shall cause the applicable Authorized Entity to comply, with the provisions of this Agreement and Attachment A, Provider, or its Authorized Entity, shall be responsible for, and shall bear all costs associated with establishing initially the interconnection between the Provider's Network and Verizon's Network, maintaining and repairing Provider's Network, and reporting, investigating and correcting any Interruption of the Services.

7.4 Each party agrees that its equipment (or, if applicable, the Authorized Entities' equipment) and the Services provided hereunder shall not interfere with or impair any other services or facilities furnished by the other party including, but not limited to, damage to the other's plant, unlawful impairment of the privacy of any communications transmitted over the Services, or creation of a hazard to any employees or Customers or to the public. If a party determines that any such impairment or interference exists, that party shall provide written notice to the other party. Such notice shall state, if known, the nature and cause of the interference or impairment in sufficient detail to allow the damaging party to take immediate remedial measures, including, but not limited to, blockage of the other party's network associated with the Services as provided for in Section 7.5 below. If additional equipment is required because of the damaging party's misuse of the Services the damaging party shall bear the cost thereof, 'The damaged party shall have the right to inspect any such equipment to determine its compliance and compatibility with the damaged party's network.

7.5 If any party, in its sole discretion, determines that any emergency action is necessary to protect its own telecommunications network that party may block any signals the other party may be transmitting over the blocking party's network. In the event Verizon takes emergency action and blocks any Services, Verizon shall be relieved of all obligations to make payments for such Services until such time as the emergency is resolved. If the blockage by Verizon is due to a failure of the Services to meet the Specifications, Verizon may be entitled to an Interruption credit in accordance with the terms of Section 7.1 above. Each party will notify the other, as soon as practicable, when a blockage occurs and the parties shall work diligently towards restoration of the affected service. No party shall have any obligation to any other party for any claim, judgment or liability resulting from such blockage, except as otherwise provided in this Section 7.5.

VIII. LIMITATIONS OF WARRANTY AND DAMAGES

8.1 THE REMEDIES SET FORTH ABOVE IN ARTICLE VI! SHALL BE PROVIDER'S SOLE OBLIGATIONS AND VERIZON'S SOLE REMEDIES FOR ANY LOSS OR DAMAGE SUSTAINED AS A RESULT OF ANY INTERRUPTION OF THE SERVICES, HOWEVER LONG IT SHALL LAST AND REGARDLESS OF THE CAUSE, UNLESS SUCH LOSS OR DAMAGE IS DUE TO PROVIDER'S GROSS NEGLIGENCE OR WILL FUL ACTS OR OMISSIONS.

8.2 IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER OR TO ANY THIRD PARTIES FOR ANY INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES RELATING TO OR ARISING FROM THE PROVISION OF THE TELECOMMUNICATIONS SERVICES TO BE PROVIDED HEREUNDER, OR OTHERWISE RELATING TO THE PERFORMANCE BY EITHER FARTY OF·ITS OBLIGATIONS HEREUNDER, INCLUDING, WITHOUT LIMITATION, DAMAGES BASED ON LOSS OF REVENUES, PROFITS OR BUSINESS OPPORTUNITIES, WHETHER OR NOT PROVIDER OR VERIZON HAD OR SHOULD HAVE HAD ANY KNOWLEDGE, ACTUAL OR CONSTRUCTIVE, THAT SUCH DAMAGES MIGHT BE INCURRED, PROVIDED, HOWEVER THAT THE FOREGOING IS NOT INTENDED TO LIMIT ANY REMEDIES EXPRESSLY PROVIDED FOR IN THIS AGREEMENT.

IX. INDEMNIFICATION

9.1 Provider shall indemnify, defend (by counsel reasonably acceptable to Verizon) and hold Verizon and its Customers harmless from and against any and all loss, liability, damage and expense (including reasonable attorneys' fees which shall include allocable costs of in-house counsel) arising out of any demand, claim, suit or judgment for damages to any property or bodily injury to or death of any persons, including, but not limited to, Customers, agents and employees of either party hereto (including payment under any worker's compensation law or under any plan for employee disability and death benefits) which may arise out of or be caused by any act or omission of Provider or any Authorized Entity.

9.2 Verizon or Ver1zon Affiliate, as applicable, shall indemnify, defend (by counsel reasonably acceptable to Provider) and hold Provider harmless from and against any and all loss, liability, damage and expense (including reasonable attorneys~ fees which shall include allocable costs of in-house counsel) arising out of any demand, claim, suit or judgment for damages to any property or bodily injury to or death of any persons, including, but not limited to, Customers, agents and employees of either party hereto (including payment under any workers' compensation law or wider any plan for employee disability and death benefits) which may arise out of or be caused by any act or omission of Verizon or Verizon Affiliate, as applicable, 9.3 Provider shall indemnify, defend (by counsel reasonably acceptable to Verizon) and hold Verizon harmless from and against any and all loss, damage. liability, fine, penalty, and expense (including reasonable attorneys' fees which shall include allocable costs of in-house counsel) arising out of the failure to have or to maintain all Required Rights specified in Section 6. I hereof.

9.4 If any claim arises to which the provisions of this Article IX or other provision of this Agreement relating to indemnification may be applicable, the party against whom such claim is made shall, immediately upon learning of such claim, notify the other party. Such other party, at its option, may settle or compromise such claim or retain counsel and control and prosecute the defense. In no event shall the party against whom the claim is asserted have the right to pay, settle or otherwise compromise such claim without the prior written consent of the party who may be obligated for such indemnity, and the parties hereto agree that they will not unreasonably withhold their consent to such payment, settlement or compromise.

9.5 If any claim arises to which the provisions of this Article IX or other provision of this Agreement relating to indemnification may be applicable, then each party agrees that it will provide the other all reasonable aid and cooperation in the conduct of the defense and/or settlement or compromise of such claim as regards liability to any third party, In any such proceeding, Verizon and, to the extent that any of Provider's services are covered by a tariff, Provider, shall assert that limitation of liability provisions in each party's tariffs act as a bar to any liability on the part of either Verizon or Provider as to any third party, including any affected Customers, to the extent that a claim of liability as to such third party arises out of the provision of any services relating to this Agreement.

9.6 The indemnification provisions in this Article IX and in Article XII and Article XIV shall survive the expiration or termination of this Agreement.

X. <u>DEFAULT</u>

10.1 Except for Provider's obligations -to furnish the Services without interruption and to repair Provider's Network used to provide the Services, the remedies for breach of which are set forth in Section 3.2 and Article VII, and except as set forth in Article V!, no party shall be in default under this Agreement unless and until it has been given written Notice of a breach of this Agreement by the other party and shall have failed to cure such breach within thirty (30) days after receipt of such notice. When a breach cannot reasonably be cured within such thirty (30) day period, the time for curing such breach may be extended by agreement of the parties for such period of time as may be necessary to complete such curing; provided that the breaching party shall have proceeded promptly to cure such breach and shall continue to prosecute such curing with due diligence.

10.2 The violation by a party of any applicable laws, statutes, ordinances, codes or other legal requirements with respect to the Services (except for violations described in Section 6.11 which shall be governed by the terms thereof) will constitute a default when such violation(s) is not remedied within thirty (30) Business Days after written notice thereof; provided, however, that each party hereto reserves the right to contest and/or appeal any such claim of violation in which event termination shall be stayed pending resolution of the contest auditor appeal.

10.3 Each Authorized Entity shall be deemed a "party" for purposes of Section 10.2, all the occurrence of a default under Section 10.2 with respect to an Authorized Entity shall be deemed a default by Provider hereunder.

10.4 Subject to Article IX hereof, in the event of a default under this Agreement, the non-defaulting party shall have the right to (a) suspend its performance or payment obligations with respect to the affected Services, (b) terminate this Agreement, or, at its discretion, the affected Services, immediately upon giving written notice of such termination to the defaulting party, and or (c) pursue any or all other remedies available at law and/or equity.

10.5 Either party may terminate this Agreement immediately (a) upon the other party's insolvency, dissolution or cessation of business operations, (b) if such other party files a petition in bankruptcy or if a petition in bankruptcy is filed against it, or (c) if such other party makes an assignment for the benefit of any of its creditors or similar arrangement pursuant to any bankruptcy law (or similar law of an applicable jurisdiction).

XI. <u>INSURANCE</u>

11.1 At all times during the term of this Agreement, Provider shall obtain, pay for, maintain, and require its Authorized Entities to maintain insurance for the coverage and amounts of coverage not less than those set forth below. Provider's and any Authorized Entity’s insurance provider(s) must be licensed to do business in the state{s) where the work is being performed. and must have an A.M. Best's rating of A-VIII or better. In the event of any failure by Provider to comply with the provisions of this Article XI, Verizon may, at its option1 on notice to Provider, suspend this Agreement until Provider is in full compliance with this Article XI. or terminate this Agreement. If Provider fails to obtain and or maintain any of the coverage’s required by this Article XI, Verizon may, but shall not be obligated to, obtain or maintain any such insurance on behalf of Provider or Authorized Entity and set off the costs thereof against any sums owed to Provider or otherwise be reimbursed for such costs by Provider.

(a) Workers Compensation insurance complying with the law of the state(s) of operation, whether or not such coverage is required by law, and Employer's Liability insurance with a limit of not less than $1,000,000 each accident, including occupational disease coverage with a limit of not less than $1,000)000 each employee and a disease policy limit of not less than $1,000,000. Such Employer's Liability policy shall be written on an occurrence form. A claims-made policy will not be accepted by Verizon.

(b) Commercial General Liability ("CGL") insurance providing coverage for bodily injury and property damage of not less than $1,000,000 per occurrence and $2.000,000 aggregate covering Provider's insurable obligations, operations, premises, independent contractors, products-completed operations, personal injury and advertising injury. At Verizon’s sole option, Provider shall, upon request, provide the above-required CGL aggregate on a per-project basis. Additionally, the CGL policy must; (i) Not exclude injury or damage resulting from work, construction or demolition within fifty (50) feet of railroad trackage if such type of work will be or may be preformed; (Ii) provide coverage at least equivalent to that provided under the I.S.0. CGL standard policy form; (iii) not exclude explosion liability or damage to underground utilities or damages caused by collapse; and (iv) and include contractual liability coverage. Such policy shall be written on an occurrence form. Claims-made policies will not be accepted by Verizon

(c) Excess or Umbrella Liability coverage with a combined single limit for bodily injury and property damage of not less than $5,000,000 per occurrence with an annual aggregate of not less than $5,000,000 shall be obtained and shall apply in excess of Commercial General Liability.

11.2 A combination of primary and excess/umbrella liability policies will be acceptable as a means to meet the minimum limits specifically required by items 1(a) (Employer's Liability only) and 11.1(b) above. Provider agrees to name Verizon as an additional insured as indicated below on all required herein, excluding Workers Compensation. All policies shall provide that the insurance coverage provided there under will be primary and noncontributory with any other applicable insurance. None of the insurance policies obtained to satisfy the requirements of this provision shall include a deductible in excess of $50,000.00. All policies must cover all operations of Provider.

11.3 Provider shall require all of its subcontractors (if any) to purchase and maintain the foregoing coverages, including specified policy limits and endorsements, to name Verizon as an additional insured, and to provide written evidence of such coverage to Provider, as well as any other coverages that Provider considers necessary. Further, Provider shall require all subcontractors to waive their right of subrogation against Verizon and shall require all subcontractor's policies to contain a waiver of subrogation endorsement for all claims against Verizon as required of Provider, below. Any deficiency in coverages, policy limits or endorsements of such subcontractor(s) shall be the sole responsibility of Provider. Provider shall keep all subcontractor certificates for a period of two (2) years after all services have been completed under this Agreement. Upon request of Verizon, Provider shall furnish copies of any subcontractor certificate(s) within ten (10) days after Verizon's request therefore.

11.4 Before commencing work under this Agreement, Provider shall provide to Verizon an original standard "ACORD" certificate of insurance (or comparable form acceptable to Verizon) signed by an authorized representative of the insurance company, certifying that the insurance coverage(s) required hereinabove are in effect for the purposes of this Agreement. Such certificates shall certify that no material modification or termination of such coverage(s) shall be effective without at least thirty (30) days advance written notice to Verizon. Certificate holder and additional insured must match entity indicated in the Agreement and original certificates sent to address shown in Article XV of this Agreement. Provider shall, upon written request, provide Verizon with a certified copy of the involved insurance policy or policies within ten (1 0) Business Days after receipt of such request

11.5 Provider waives all of its express and/or implied right(s) of subrogation against Verizon, its officers, directors, agents, and employees thereof and Provider's insurance policies shall contain a waiver of subrogation endorsement for all claims against Verizon, its officers, directors, agents, and employees thereof. The above-required waivers shall also extend to companies and other legal entities that control, are controlled by, are subsidiaries of, or are affiliated with Verizon, and the respective officers, directors, agents, employees and shareholders of-such companies or entities

11.6 Neither the insurance required herein or the amount and type of insurance maintained by Provider shall limit or affect the extent of Providers liability hereunder for injury, death, loss or damage. Verizon. and its Affiliates, shall not insure nor be responsible for any loss or damage to property of any kind owned or leased by Provider or its employees, servants and agents. Any policy of insurance covering property owned or leased by Provider against loss by physical damage shall provide that the underwriters have given their permission to waive their rights of subrogation against Verizon, its Affiliates and subsidiaries and their respective directors, officers, and employees

11.7 No Limitation. Provider is responsible for determining whether the above minimum insurance coverages are adequate to protect its interests. The above minimum coverages do not constitute limitations upon Provider's liability

XII. INFRINGEMENT

12.1 Provider represents and warrants that the equipment and facilities that will be used in furnishing the Services to Verizon pursuant to this Agreement will not infringe or violate any copyright, patent, trade secret or any other intellectual property rights or similar property rights, excluding, however, any such infringement which may arise due to combining such equipment and facilities with (a) equipment or facilities furnished by Verizon, or (b) equipment or facilities located off of Provider's Network and furnished by a third party unrelated to Provider. Provider will indemnity, defend (by counsel reasonably acceptable to n and hold Verizon and its Customers harmless from and against any claims made and/or loss suffered (including reasonable attorneys fees which shall include allocable costs of in-house counsel) as a consequence of any such infringement or violation of any copyright, patent, trade secret or any other intellectual property rights or similar property rights. Moreover, should the equipment or facilities furnished by Provider hereunder become, or in Provider’s opinion is likely to become, the subject of a claim of infringement, or should Verizon’s use of the equipment and facilities be finally enjoined, Provider shall, at its expense;

12.1,1 Procure for Verizon the right to continue using the equipment or facilities; or

12.1.2 Replace or modify the equipment or facilities to make it non-infringing.

XIII. FORCE MAJEURE

In no event shall either party have any claim or right against the other party for any failure of performance by such other party if such failure of performance is caused by or the result of causes beyond the reasonable control of such other party (a "Force Majeure Event"), including, but not limited to, act of God, fire, flood or other natural catastrophe; laws, orders, rules, regulations, directions or actions of governmental authorities having jurisdiction Over the subject matter of this Agreement or any civil or military authority; the condemnation or taking by eminent domain of any of a party's facilities used in connection with the Services; national emergency, insurrection, riot or war; or other similar occurrence. Notwithstanding anything in this Agreement to the contrary. (a) a cable cut, regardless of cause, shall not be deemed a "Force Majeure Event" hereunder, (b) no act or omission of any employee, agent, contractor or subcontractor of Provider or any Authorized Entity shall be deemed to be «beyond the reasonable control" of Provider for purposes of this Article XIII, and (c) in the event that any Force Majeure Event results in a failure of any Services to meet the Specifications, Verizon's payment obligation with respect to such Services shall be suspended for the period of such failure. Notwithstanding anything in this Agreement to the contrary, if a failure of performance caused by a Force Majeure Event exceeds thirty (30) days, either party may terminate this Agreement or any affected Services immediately upon written notice to the other party, without incurring any termination liability.

XIV. TAXES

All rates and charges in this Agreement arc exclusive of an applicable sales, use, excise or other similar consumption taxes, if any) which are by the terms of the relevant statute or ordinance imposed upon the entity receiving the Services provided under this Agreement. Provider shall separately state or itemize such taxes on its invoices. Verizon shall pay such applicable taxes. In the event. Verizon believes it is exempt from any such tax, Verizon will provide Provider with an exemption certificate evidencing such claimed exemption which Provider shall honor. In no case shal1 Verizon be responsible for any income taxes levied upon Provider's or any Authorized Entity's income, or any real or personal property taxes assessed against Provider or its property or against any Authorized Entity or its property, including any gross receipts taxes assessed in lieu of income or property taxes, or any municipal franchise taxes. Notwithstanding anything to the contrary in this Article XIV, Verizon shall be entitled to protest and or contest by appropriate proceedings any such tax for which it may be liable hereunder; provided that Verizon shall indemnify, defend (by counsel reasonably acceptable to Provider) and hold harmless Provider against any damages, losses, claims or judgments arising out of such protest and/or contest including, without limitation, any liens or attachments.

XV. NOTICES

15.1 All notices and communications, except Rate Notices as described in Section 5.1 and invoicing and payment related notice as described in Section 5.3, concerning this Agreement shall e in writing and shall be addressed to:

Verizon (one copy to each) at:

a.

6665 N. MacArthur Blvd.
HQK02E64
Irving, Texas 75039
Attention: Director – Alliance Management
FAX: 972-465-4715

b.

International Business Legal Group
2201 Loudoun County Parkway
Ashburn, VA 20147
FAX: (703) 886-0837

Provider (one copy to each) at:

Fusion Telecommunications
420 Lexington Avenue, Suite 1718
New York, New York 10170
Attn: Jan Sarro
Fax: 212-972-7884

Fusion Legal Department
420 Lexington Avenue, Suite 1718
New York, New York 20147
Attn: William Heitz, Esq.
Fax: 585-387-0130

Or at such other address as may be designated in writing to the other party.

15.2 Notices shall be sent by registered or certified U.S. Mail~ postage prepaid, or by commercial overnight delivery service, or by facsimile transmission (with evidence of confirmation)~ and shall be deemed delivered to addressee on the date of return receipt acknowledgment (in the case of notices sent via U.S. Mail) or on the next day after the date the notice was sent (in the case of notices sent by either overnight delivery service or by facsimile); provided. however. that upon receipt of a returned notice marked "unclaimed.," the sending party shall make reasonable effort to contact and notify the other party by telephone.

XVI. CONFIDENTIALITY; ADVERTISING AND PUBLICITY

16.1 By virtue of this Agreement. Provider and Verizon, and their respective Affiliates may have access to or exchange Confidential Information. A Recipient (as denied in Section 1.6) of such Confidential Information shall not disclose any Confidential Information to any person or entity except (i) Affiliates who agree, in advance, in writing, to be bound by this Article XVI, and (ii) Recipient's employees, contractors and consultants, and Affiliates' employees, contractors and consultants, who have a need to know and who are bound in writing to protect the received Confidential Information from unauthorized use or disclosure. Confidential Information shall not otherwise be disclosed to any third party without the prior written consent of Owner (as defined in Section 1.6). Recipient shall use Confidential Information only for the purpose of this Agreement and shall protect such Confidential be disclosed to any third party without the prior written consent of Owner (as defined in Section 1.6). Recipient shall use Confidential Information only for the purpose of this Agreement and shall protect such Confidential Information from disclosure to others, using the same degree of care used to protect its own confidential or proprietary information of like importance, but in any case using no less than a reasonable degree of care.

16.2 Each party shall cause its Affiliate, to comply with the terms of this Article XVI. A failure of any Affiliate of a party to comply with the terms of this Article XVI shall be deemed a breach of this Agreement by such party. To the extent any Confidential Information is the information of an Affiliate, such Affiliate shall be entitled to enforce the confidentiality obligations of the other party and its Affiliates as a third party beneficiary of this Agreement.

16.3 The restrictions of this Article XVI shall not apply to information that: (i) was publicly known at the time of Owner's communication thereof to Recipient; (ii) becomes publicly known through no fault of Recipient subsequent to the time of Owner's communication thereof to Recipient; (iii) was in Recipient's possession free of any obligation of confidence at the time of Owner', communication thereof to Recipient (iv) is developed by Recipient independently of and without reference to any of Owner's Confidential Information or other information that Owner disclosed in confidence to any third party; (v) is rightfully obtained by Recipient from third party, authorized to make such disclosure without restriction; or (vi) is identified by Owner as no longer proprietary or confidential.

16.4 In the event Recipient is required by law, regulation or court order to disclose any or Owner', Confidential Information, Recipient will promptly notify Owner in writing prior to making any such disclosure in order to facilitate Owner seeking a protective order or other appropriate remedy from the proper authority. Recipient agrees to cooperate with Owner in seeking such order or other remedy. Recipient further agrees that if Owner is not successful in precluding the requesting legal body from requiring the disclosure of the Confidential Information, Recipient will furnish only that portion of the Confidential Information which is legally required and will exercise all reasonable efforts to obtain reliable assurances that confidential treatment will be accorded the Confidential Information

16.5 All Confidential Information disclosed in connection with this Agreement shall be and remain the property of Owner. All such information in tangible form shall be returned to Owner promptly upon written request and shall not thereafter be retained in any form by Recipient.

16.6 A party to this Agreement which makes Confidential Information available to any third party, including without limitation as permitted pursuant to Section 16.1 above shall remain liable for the handling by Recipient of the received Confidential Information in conformity with the requirements of this Agreement and for the breach by any such Recipient of such requirements. In the event that either party becomes aware of an non-permitted third party disclosure of Confidential Information hereunder, such party shall promptly notify the other party of such disclosure.

16.7 The parties acknowledge that Confidential Information is unique and valuable, and that disclosure in breach of this Article XVI will result in irreparable injury to Owner for which monetary damages alone would not be an adequate remedy. Therefore, the parties agree that in the event of a breach or threatened breach of confidentiality, Owner shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach or anticipated breach without the necessity of posting a bond. Any such relief shall be in addition to and not in lieu of any appropriate relief in the way of monetary damages.

16.8 Neither party shall publish or use any advertising, sales, promotions, or other publicity materials that use the other party's name, logo, trademarks or service marks without the prior written approval of the other party. Each party agrees not to issue any publicity materials, press releases or other public statements that refer to, or describe any aspect of, this AgreelJ1ent, without the prior written approval of the other party. Nothing in this Agreement establishes a license for either party to use any of the other party's brands, marks or logos without the prior written approval of the other party.

16.9 CPNI related to a party's Customers obtained by virtue of this Agreement shall be such party's Confidential Information and may not be used by the other party for any purpose except performance of its obligations under this Agreement:, and in connection with such performance, shall be disclosed only in accordance with this Article XVI, unless the party's Customer expressly directs it to disclose such information to the other party pursuant to the requirements of 47 U.S.C. Section 222(c)(2). If the other party seeks and obtains written approval to use or disclose such CPNI from the party's Customer(s), such approval shall be obtained only in compliance with Section 222(c)(2) and, in the event such authorization is obtained, the requesting party may use or disclose only such information as the party provides pursuant to such authorization and may not use information that the requesting party has otherwise obtained, directly or indirectly, in connection with its performance under this Agreement.

16.10 Pursuant to 47 U.S.C. 222(b), carrier information that is obtained by Recipient from Owner by virtue of this Agreement shall be Owner's Confidential Information and may not be used by the other party for any purpose except performance of its obligations under this Agreement, and in connection with such performance, shall be disclosed only in accordance with this Article XVI.

16.11 Provider agrees to abide, and to cause each Affiliate and Authorized Entity to abide, by the terms of Section 705 of the Communications Act of 1934, as amended, and other similar federal or state laws that apply to common carriers and which impose on such carriers the obligation not to divulge or publish (except as authorized by law) the existence, contents, substance, purport, effect or meaning of any communications which such carrier transmits, receives or assists in transmitting or receiving. Provider will abide) and will cause each Affiliate and Authorized Entity to abide, by the terms of such laws with respect to any communications which Provider or any such Affiliate or Authorized Entity transmits, receives or assists in transmitting or receiving as part of this Agreement, regardless of whether Provider's or such Affiliate's or Authorized Entity's activities lead to or support a conclusion that Provider or such Affiliate's or Authorized Entity is in fact a "common carrier" for the purposes of such laws

16.12 The provisions of this Article XVI shall survive the termination or expiration of this Agreement.

XVII. <u>DATA PROTECTION</u>

17.1 Verizon acknowledges that Provider will, by virtue of the provision of Services to Verizon, come into possession of Verizon Data.

17.2 Provider shall implement appropriate technical and organizational measures to protect Verizon Data against accidental or unlawful use or destruction, accidental1oss~ alteration, unauthorized disclosure or access and against other unlawful forms of processing.

]7.3 Verizon acknowledges and agrees that Provider may, subject to applicable law, use, process and /or transfer Verizon Data for one or more of the following limited purposes only:

17.3.1 in connection with the provision of Services;
17.3.2 for the purpose of administration, provisioning, billing and reconciliation, maintenance) and customer support.
17.3.3 to comply with any statutory obligation) regulatory requirement or court or other public authority order.

XVIII. <u>ASSIGNMENT; TRANSFER OF INTERESTS</u>

18.1 Any assignment by Provider of this Agreement, in whole or in pat\ shall require Verizon's prior written approval, which approval shall not be unreasonably withheld. Any approved assignee shall in writing assume and continue to perform the assignor's obligations hereunder. A copy of the assignee's written assumption shall be delivered to Verizon.

18.2 Provider acknowledges that Verizon has entered into this Agreement in reliance upon the unique business, technical and financial capabilities and experience of Provider. Provider shall give Verizon no less than thirty (30) days notice prior to any sale) assignment or transfer (a "Transfer") to a third party of a majority ownership interest in Provider. Verizon shall have the right, at any time within ninety (90) days after receipt of Provider's notice of Transfer, to notify Provider of its intent to terminate this Agreement or any portion of the Service then being provided hereunder. Any such termination shall be without liability to Verizon and shall take place on the daters) specified in Verizon's notice, which daters) shall be no more than twelve (12) months after the date of Transfer.

XIX. <u>AUTHORITY</u>

19.1 Each party has full power and authority to enter into and perform this Agreement in accordance with its terms, and the person signing this Agreement on behalf of each party has been properly authorized and empowered to enter into this Agreement

19.2 Provider represents and warrants to Verizon that it or the applicable Authorized Entity has authority to do business in each of the jurisdictions in which Services are provide to Verizon, and that Provider and each Authorized Entity is an entity, duly organized, validly existing and in good standing under the laws of the state of its origin.

XX. <u>GENERAL PROVISIONS</u>

20.1 The relationship of the parties here under shall always and only be that of independent contractors.

20.2 Whenever the singular is used herein the same shall include the plural where appropriate, and when the plural is used herein1 the same shall include the singular where appropriate.

20.3 In the event any of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the unaffected provisions of this Agreement shall be unimpaired and remain in full force and effect Verizon and Provider shall negotiate in good faith to substitute for such invalid, illegal or unenforceable provisions a mutually acceptable provision consistent with the original intention of the parties hereto.

[illegible]

20.4 The captions or headings in this Agreement are strictly for convenience and shall not be considered in interpreting it or as amplifying or limiting any of its content.

20.5 This Agreement is the joint work product of both parties hereto. Accordingly, in the event of ambiguity, no presumption shall be imposed against any party by reason of document preparation.

20.6 Except as otherwise stated herein, no waiver of any breach of this Agreement or of any of the terms hereof shall be effective unless such waiver is in writing and signed by the parties. No waiver of any breach shall be deemed to be a waiver of any other or subsequent breach.

20.7 This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to its principles of conflicts of Jaws.

20.8 This Agreement between Provider and Verizon is non-exclusive. Nothing in this Agreement shall prevent Provider or Verizon from entering into similar arrangements with any other entities or otherwise furnishing telecommunications services to, or obtaining telecommunications services from, any entity.

20.9 This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

20.10 This Agreement constitutes the entities agreement between the parties with respect to the subject matter and geographic locations referred to and supersedes any and all prior or contemporaneous agreements between the parties, whether written or oral. Unless otherwise expressly permitted herein, this Agreement cannot be modified except in writing signed by the parties.

XXI. ARBITRATION

Any dispute arising out of or related to this Agreement which cannot be resolved by negotiation', shall be settled by binding arbitration in accordance with the J.A.M.S/ENDISPUTE Arbitration Rules and Procedures, as amended by this Agreement The costs of arbitration~ including the fees and expenses of the arbitrator, shall be shared equally by Verizon and Provider unless the arbitration award provides otherwise. Verizon and Provider shall each bear the cost of preparing and presenting its case. The parties agree that this provision and the arbitrator's authority to grant relief shall be subject to the United States Arbitration Act, 9 U.S.C. 1-16 et seq. ("USAA"), the provisions of this Agreement, and the IIJ3A-AAA Code of Ethics for Arbitrators in Commercial Disputes. The parties agree that the arbitrator shall have no power or authority to make awards or issue orders of any kind except as expressly permitted by this Agreement, and in no event shall the arbitrator have the authority to make any award that provides for punitive or exemplary damages. The arbitrator's decision shall follow the plain meaning of the relevant documents, and shall be final and binding. The award may be confirmed and enforced in any court of competent jurisdiction. All post-award proceedings shall be governed by the USAA.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement to be effective as of the day and year first above written..

Fusion Telecommunications International, Inc.	MCI Commuications Services, Inc.
By: /s/ JAN SARRO	By: /s/ JIM WOODRICH
Title: Executive Vice President	Title:
Date: 9/21/06	Date: 9/25/06

Attachment A

Services:

Rates and Discounts

Additional Terms and Conditions, if any:

CARRIER SERVICE AGREEMENT

This Carrier Service Agreement is entered into as of this 10th day of June, 2004, between Fusion Telecommunications International, Inc., a Delaware corporation ("Provider"), having its principal place of business at 420 Lexington Avenue, Suite 518, New York, NY 10170 and VCG (“Purchaser”), a Delaware corporation, having its principal office at 1250 Broadway, New York, NY 10001.

Recitals:

A. Provider provides telecommunications services between its location and the outbound termination points identified on Exhibit A hereto and incorporated herein by this reference and

B. Purchaser desires to purchase, upon the terms and conditions set forth in thei Agreement, telecommunications services from Provider.

Agreement:

Now therefore, intending to be legally bound, the parties agree as follows:

1. **<u>Rates, Terms and Conditions</u>:** Provider shall provide telecommunications services to Purchaser at the rates, terms and conditions described in Exhibit A, and to the termination points set forth in Exhibit A. Purchaser acknowledges that the per minute rates set forth on Exhibit A are preferential rates based on prompt payment on or before the Due Date. The services to be provided are limited to those set forth in Exhibit A and require from Purchaser a monthly minimum usage per T-1 and/or E-1 as set forth in said Exhibit. Rates listed in Exhibit A or any subsequent rate sheet are subject to change by Provider with five (5) days written notice to Purchaser.

2. **<u>Period of Service</u>:** This Agreement shall become effective and the parties' obligations shall commence upon the date set forth in Exhibit A of this Agreement and shall continue (subject to Provider's right to terminate this Agreement sooner) for a period of one year (12 months) from such date (the Initial Term"). This Agreement will be automatically renewed on a month-to month basis after the expiration of the initial term or any subsequent term. If either party desires to cancel this Agreement upon the expiration of the current term or any subsequent term, it shall give the other party written notice of its intent to cancel at least twenty (20) days prior to the expiration of the current term. This Agreement shall continue and remain in full force and effect until canceled by either party upon notice as provided herein.

3. **<u>Security</u>:** Purchaser shall submit financial documentation for review to Provider's credit department. To ensure the prompt payment of sums due hereunder, Purchaser shall furnish to Provider upon the execution of this Agreement, a prepayment or security deposit in the form of cash, irrevocable and unconditional letter of credit, or such other security in form and amount acceptable to Provider. Upon request by Provider at any time, Purchaser agrees to proVide financial statements or other indications of its financial circumstances. In addition, after service commencement, Provider, at its option, may request additional security if: (a) Purchaser's payment· history, financial circumstances or credit exposure becomes unacceptable, (b) if Purchaser's account balance, plus unbilled usage exceeds the amount of any security deposit or assurance requirement or (c) in light of Purchaser's actual usage when compared to projected usage levels upon which any prior security or assurance requirement was based. Purchaser shall provide the requested additional security within two (2) days/forty-eight (48) hours: after request by Provider. In the event that Purchaser fails to provide the requested security in accordance with this provision, Provider may suspend service and/or terminate this Agreement without further notice.

4. **Additional Security Provisions:** The dollar value of service available to Purchaser shall be limited to the dollar amount of the prepayment or security deposit available to Provider. The amount of any required prepayment, cash security deposit, or letter of credit is outlined in Exhibit A. Any letter of credit shall be substantially similar in form to Exhibit A to this Agreement and shall be from a financial institution reasonable acceptable to Provider.

5. **Billing Increments:** All traffic shall be billed with an initial 30 second minimum increment, followed by 6 second additional increments (i.e. a minimum call length 30 seconds with all additional usage rounded up to the nearest 6 second increment). The sole exception to this billing arrangement shall be traffic terminating in Mexico which shall be billed in full minute increments (i.e. a minimum call length 60 seconds with additional usage rounded up to the nearest full minute).

6. **Billing Period/Payment Schedule:** The billing period shall be seven days long, commencing at 12:00:00 a.m., Eastern Standard Time, on Monday and continuing through 11:59:59 p.m. Eastern Standard Time, the following Sunday. Provider shall send bill to Purchaser for service provided during the preceding billing period (i.e. the prior seven days), via e-mail or facsimile, by close of business each Monday. Payment of the amount shown on the bill is due from Purchaser by 5:00 p.m., Eastern Standard Time, the following Thursday (i.e. three working days later) (the "Due Date"). All payments are to be made by wire transfer per the banking information detailed in Exhibit B. The charges for services that are not paid by the Due Date shall be deemed past due. The uncollectability, fraud or any other problem that may affect Purchaser in the assessment, appraisal, accounting, billing or collecting of debt will never exempt Purchaser from the obligation of full payment to Provider. Any payment received by Provider after the Due Date shall be subject to an interest charge on delinquent amounts from the date such amounts were due at the rate of one and a half percent (1.5%) of the late payment per month (or, if unlawful, the maximum lawful rate allowable under applicable law).

7. **Taxes:** Purchaser acknowledges and understands that all charges stated in the Exhibits hereto are computed by Provider exclusive of any applicable use, excise, gross receipts, sales and privilege taxes, duties, fees or other taxes or similar liabilities, including but not limited to universal service or pursuant to similar regulatory, federal or state laws, whether charged to or against Purchaser or Provider because of the services furnished to Purchaser pursuant to this Agreement ("Additional Charges"). Purchaser also acknowledges and understands that such Additional Charges will be invoiced by Provider only if Purchaser has not provided Provider with a direct payment permit, sale for resale exemption certificate, sales tax exemption certificate or other applicable exemption certificate and any non-exempt Additional Charges shall be paid by Purchaser, in addition to all other charges provided for herein.

8. **Billing Disputes:** If Purchaser, in good faith, disputes the amount or appropriateness of a charge included in an invoice, it shall notify Provider in writing and provide supporting documentation establishing such claim. Such documentation supporting disputed charges shall include a detailed analysis showing the difference between the specific invoice amount and Purchaser's specific asserted amount. A summary of the disputed charges will not be accepted. Purchaser shall further provide all information reasonably requested by Provider including, but not limited to, call detail records (CDRs), to resolve the dispute. Such notification shall not relieve Purchaser of the obligation to make all undisputed payments, by the Due Date. Any resolution made by Provider in favor of Purchaser shall be credited to Purchaser's next invoice. Failure to contest a charge within thirty (30) calendar days from receipt of an invoice shall create an irrefutable presumption of the correctness of the charge. Upon dispute, the parties agree to use their best efforts to resolve the dispute in good faith within thirty (30) calendar days of Purchaser's receipt of invoice. In the event that the parties are unable to resolve the dispute within this thirty (30) day period, the dispute shall be submitted to arbitration as otherwise provided for in this Agreement.

9. **Dispute Resolution:** In the event of any controversy or claim arising from or related to this Agreement, its performance or interpretation, the parties, in good faith, will attempt to resolve the dispute among themselves. Failing such resolution, the dispute will be settled by binding arbitration conducted in accordance with the commercial Arbitration Rules of the American Arbitration Association ("AAA Rules"), as amended by this Agreement and judgment upon the award rendered by the arbitrator(s) may be entered by any court with jurisdiction. The location of the arbitration shall be New York, New York. The cost of the arbitration, including the fees and expenses of the arbitrator(s), shall be shared equally by the parties unless the arbitration award provides otherwise. Each party shall bear the cost of preparing and presenting its case. The arbitrator(s) are not empowered to award damages in excess of compensatory damages and each party irrevocably waives any damages in excess of compensatory damages.

10. **Right to Collect Against Funds on Deposit:** If full payment is not received by provider when due, provider shall have the right, with 48 hour notice, to make payment out of funds on deposit. For the purposes of this agreement, payment shall not be deemed to be made until funds have cleared into provider's account.

11. **Service Interconnections:**

11.1 **Interconnection of Purchaser Facilities:** In order to receive services via TOM connection from Provider hereunder, Purchaser must establish dedicated DS-1 circuits between Purchaser's designated network and Provider's designated network meet point ("POP") as specified in Exhibit A. Purchaser shall pay any installation charges and continuing charges for circuits used to connect Purchaser to Provider's POP in compliance with network interface procedures.

12. **Termination:**

12.1 **Regulatory Changes:** If the FCC, any state or other regulatory agency or court of competent jurisdiction elects to implement or enforce a rule, regulation, law or order which has the effect of cancelling, changing, or superseding any material term or provision of this Agreement or rate charged (collectively "Regulatory Requirement"), then this Agreement shall be deemed modified in such a way as the parties mutually agree is consistent with the form, intent and purpose of this Agreement and as is necessary to comply with such Regulatory Requirement. Should the parties not be able to agree on modifications necessary to comply with a Regulatory Requirement within thirty (30) days after the Regulatory Requirement is implemented or enforced, then upon written notice either party may, to the extent practicable, terminate that portion of this Agreement impacted by the Regulatory Requirement enforcement.

12.2 **Non-Payment:** If payment has not been received by the Due Date, for all charges (including transmission charges, service charges and monthly fixed charges, if any) billed to Purchaser, then Provider may, at its sole discretion and with five (5) days prior written notice to Purchaser, terminate transmission services and/or this Agreement in part or in whole.

12.3 **Corporate Dissolution:** Either party may terminate this Agreement in the event the other party makes an arrangement or composition with its creditors generally or makes an application to a court of competent jurisdiction for protection from its creditors generally or a bankruptcy order is made against the other party or a resolution is passed by it for its winding up, a court of competent jurisdiction makes an order for its winding-up or dissolution, an administration order is made in relation to it or a receiver is appointed over (or an encumbrance takes possession of or sells) any of its assets.

12.4 **Breach of Agreement:** In the event of a breach of any material term or condition of this Agreement by a party (other than failure to pay which is covered under Section 12.2 above or failure to provide additional security which is covered under Section 3 above), the other party may terminate this Agreement upon thirty (30) days written notice, unless the breaching party cures the breach during the thirty (30) day period.

Upon any material breach by Purchaser after expiration of all applicable notice and cure periods, Provider may at its sole option do any or all of the following:

(i) cease accepting traffic;
(ii) cease all electronically and manually generated information and reports;
(iii) draw on any letter of credit, security deposit or other assurance of payment and enforce interest provider by Purchaser;
(iv) terminate this Agreement and services without liability to Provider;
(v) pursue such other legal or equitable remedy or relief as may be appropriate.

12.5 **Network Protection:** In the event Purchaser's service traffic volumes (or traffic distribution patterns to individual cities and countries) results in a lower than industry standard completion rate, severely abnormal or disproportionate distribution of traffic by city, or other similar abnormality which adversely affects the Provider network (including, but not limited to looping situations where Purchaser's traffic is delivered by Provider to another carrier for termination and ultimately returned to Provider), Provider reserves the right to block and refuse to accept such adverse traffic at any time, with prompt notice as soon as possible thereafter.

13. **No Warranties:** Provider shall use reasonable efforts to provide Telecommunication services to purchaser, however, provider makes no warranty, express or implied, with respect to the transmission services provided hereunder and expressly disclaims any warranty of merchantablilty, description or fitness for any particular purpose or function.

14. **Waiver of Liability:** As a material inducement for Provider to provide the services hereunder at the prices stated, Purchaser agrees that Provider shall in no event be liable to Purchaser or Purchaser's own customers for any loss, expense or damage for (i) loss of revenue, profits, savings, business or goodwill and (ii) exemplary, proximate, consequential, or incidental damages and expenses of any type or nature on account of any breach or default hereunder by Provider or on account of the use or nonuse or the services.

15. **Indemnity:** Purchaser shall indemnify and hold harmless Provider, its stockholders, officers, directors, employees and agents from any and all loss, cost damage, expense or liability, including without limitation, court costs and reasonable attorneys' fees, arising out of, in whole or in part, directly or indirectly, the installation, hook-up, maintenance, service or trouble-shooting of the transmission services described in this Agreement including any interruption of transmission service to Purchaser, its employees, agents and customers, except when caused by the gross negligence by the Provider or the intentional violations of any applicable law or governmental regulation by Provider.

16. **Provision of Information and Confidentiality:**

16.1 Each party undertakes to the other to promptly provide all information and assistance which the other may reasonably require to enable it to perform its obligations under this Agreement.

16.2 Subject to sub-Section 15.3, each party undertakes that it will treat as confidential, and will use its reasonable endeavors to procure that its directors, employees, advisers and agents will treat as confidential, the terms and conditions of this Agreement, as well as all data, summaries, rates, reports or information of all kinds, and all other confidential information, whether of a technical or business nature or otherwise relating in any manner to the business or affairs of the other party, which it may receive in connection with this Agreement, and will not (and will use its reasonable endeavors to procure that its directors, employees, advisers and agents will not) disclose or use such information other than strictly for the purposes of this Agreement, except with the written permission of the other party.

16.3 The provisions of sub-Section 16.2 shall not apply to information held by a party which:

16.3.1 is in or comes into the public domain other than by breach of this Agreement;

16.3.2 is obtained by that party from a third party, who has the right to disclose it;

16.3.3 is or has been independently generated by that party (but not including data generated by that party about calls handed over by the other party); or

16.3.4 is in the possession of or is known to that party prior to the date of this Agreement, to the extent that party is not bound by any confidentiality obligation in respect of such information to the other party.

16.4 The following disclosures by either party shall not constitute a breach of sub-Section 16.2:

16.4.1 a disclosure of information necessary to comply with any law or the valid order of a court of competent jurisdiction or the rule, regulation or request of any governmental or other regulatory authority or agency provided that the party disclosing the information shall request confidential treatment of such information by the third party to which it is disclosed;

16.4.2 a disclosure of information to a party's auditors andlor other professional advisors or as part of its normal reporting or review procedure to its parent company, members or partners as the case may be, provided that the party disclosing the information will endeavor to procure that its auditors, professional advisors, parent company members and partners will also treat such information as confidential;

16.4.3 a disclosure of information made in order to enforce its rights under this Agreement;

16.4.4 a disclosure made to a financial institution, lender of funds or financial advisor where such disclosure is required as part of an arrangement for the financing or refinancing of such party; provided, however, that before making any disclosure pursuant to this sub-Section 16.4, the recipient party agrees that it will provide the disclosing party with prompt written notice so that the disclosing party has the opportunity to pursue its legal and equitable remedies regarding potential disclosure.

16.5 On termination of this Agreement for whatever reason, the recipient party shall return to the disclosing party (or, at the discretion of the disclosing party, destroy) all copies of confidential information of the other party which it has in its possession. The provisions of this Section 16 shall survive the termination or expiry of this Agreement for any reason whatsoever.

17. **No Agency:** Neither party is authorized to act as an agent for, or legal representative of, the other party and neither party shall have the authority to assume or create any obligation on behalf of, in the name of, or binding upon the other party.

18. **Force Majeure:** The parties' obligations under this Agreement are subject to and neither party shall be liable for (except for the obligation to pay money by Purchaser): delays, failures to perform, damages, losses or destruction, or malfunction of any equipment or any consequence thereof caused or occasioned by, or due to fire, flood, water, the elements, labor disputes or shortages, utility curtailments, power failures, explosion, civil disturbances, governmental actions, shortages of equipment for supplies, unavailability of transportation, acts or omissions of third parties, or any other cause beyond the party's reasonable control. Purchaser shall not represent that Provider is responsible for the type or quality of Purchaser's services to its customers.

19. **<u>No Waiver</u>:** The failure of either party to enforce or insist upon compliance with any of the provisions of this Agreement or the waiver thereof, in any instance, shall not be construed as a general waiver or relinquishment of any other provision of this Agreement.

20. **<u>Binding Effect</u>:** This Agreement shall be binding upon and inure to the benefit of the parties' hereto and their respective heirs, successors and assigns.

21. **<u>No Assignment</u>:** Neither party shall voluntarily or by operation of law assign, transfer, license, or otherwise transfer all or any part of its right, duties or other interest in the Agreement of the proceeds thereof (collectively, "Assignment"), without the other party's prior written consent, which consent shall not be unreasonably withheld or delayed. Any attempt to make an Assignment in violation of this provision shall be null and void. Purchaser and Provider shall provide written notice to the other of any change in ownership or control. Either party's failure to comply with the assignment provisions, as contained in this paragraph, shall give the other, at its sole discretion, the option to either accept the others assignee or terminate this Agreement. No assignment shall release the other of its obligations hereunder.

22. **<u>Amendment</u>:** This Agreement may not be amended except by an instrument in writing, executed by the parties. The acknowledgment or acceptance hereto shall effect no modification or amendment by either party of any purchaser order, sales acknowledgment or other similar form from the other party.

23. **<u>Merger</u>:** This Agreement (including its Exhibits) supersedes and merges all prior agreements, promises, understandings, statements, representations, warranties indemnities and covenants and all inducements to the making of this Agreement relied upon by either party herein, whether written or oral, and embodies the parties' complete and entire agreement with respect to the subject matter hereof. No statement or agreement, oral or written, made before the execution of this Agreement shall vary or modify the written terms hereof in any way whatsoever.

24. **<u>Interpretation</u>:** The words and phrases used herein shall have the meaning generally understood in the telecommunications industry. This Agreement shall be construed in accordance with its fair meaning and not for or against either party drafted this Agreement.

25. **<u>Third Party Beneficiaries/Parties in Interest</u>:** This Agreement has been made and is made solely for the benefit of the Provider and Purchaser, and their respective successors and permitted assigns. Nothing in this Agreement is intended to confer any rights/remedies under or by reason of this Agreement on any third party.

26. **<u>Representation of Authority</u>:** Each party represents and warrants to the other that the execution and delivery of this Agreement and the performance of such party's obligations hereunder have been duly authorized and that the Agreement is a valid and legal agreement binding on such parties and enforceable in accordance with its terms.

27. **<u>Further Assurances</u>:** The parties shall at their own cost and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to carry out the intent and purposes of this Agreement.

28. **<u>Governing Law</u>:** This Agreement shall be in all respects, governed by and construed and enforced in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

29. **<u>Counterparts</u>:** This Agreement may be executed in several counterparts, each of which shall constitute an original, but all of which shall constitute one and the same instrument.

30. **Notices:** All notices, demands, requests and other communications required or permitted hereunder shall be in writing and shall be deemed to be delivered on the earlier of: (a) the date of actual receipt; (b) three days after the date of mailing, by certified or registered mail, duly addressed and with proper pre-paid postage, with return receipt requested, to the last known place of business of either party; or (c) the day after being sent via a nationally recognized overnight courier service such as Federal Express. Notices will be delivered as follows:

Provider: Fusion Telecommunications International, Inc.
420 Lexington Avenue, Suite 518
New York, NY 10170
Attn: Sales Dept.

Phone: 212-972-2000
Fax: 212-972-7884

Purchaser: ____
Address: ____
____
Attn: ____
Phone: ____
Fax: ____

IN WITNESS WHEREOF the parties have executed this Agreement as of the day and year first written

Fusion Telecommunications Int'l, Inc.	Purchaser: VCG
By: /s/ **JAN SARRO**	By: /s/ **ELIE SEIDMAN**
Printed Name: Jan Sarro	Printed Name: Elie Seidman
Title: Vice President	Title: CEO

Quest Communications Corporation

Wholesale Services Agreement

Signature Page

The undersigned Parties have read and agreed to the terms and conditions as set forth in the attached Quest Wholesale Services Agreement.

QUEST COMMUNICATIONS CORPORATION	FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
By: /s/ GORDON MARTIN	By: /s/ JOSEPH M. TROCHE
Executive Vice President, Wholesale Markets	SVP of Sales
Date: April 23, 2002	Date: April 3, 2002

*Offer Management Director: /s/Thomas R. Schmuke

*This Agreement shall not be binding upon Qwest until countersigned by the Offer Management Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

APPLICABLE SERVICES: Qwest agrees to offer and Customer agrees to purchase the Services indicated below: Exhibit B Qwest Express Blended Terminating Switched Service The Wholesale Services Agreement may be amended by the Parties from time to time to include additional products and services.

NOTICE INFORMATION:

All written notices required under the Agreement shall be sent to the following:

To Qwest:	Qwest Communications Corporation 1801 California Street, Suite 4900 Denver, Colorado 80202 Facsimile #: (303) 295-6973 Attention: Legal Department	To Customer:	Fusion Telecommunications International, Inc. 4020 Lexington Avenue, Suite 518 New York, New York 10170 Phone # 212-201-2415 Facsimile # 212-972-7884 E-mail: Amatos@Fusiontel.com Attention: Amy C. Matos
With copy to:	Qwest Communications Corporation 1801 California Street, 33rd Floor Denver, Colorado 80202 Phone #: (303) 992-1400 Facsimile #: (303) 308-5763 E-mail: wholesale.contracts@qwest.com Attention: Wholesale Markets Contract Administration		

THIS WHOLESALE SERVICES AGREEMENT, together with the signature page, addenda and exhibits attached hereto from time to time by the Parties (collectively, the "Agreement") is entered into by and between Qwest Communications Corporation ("Qwest"), a Delaware corporation, located at 555 17th Street, Denver, Colorado 80202, and Fusion Telecommunications International, Inc., a Delaware corporation (the "Customer"), located at 4020 Lexington Avenue, Suite 518, New York, New York 10170, and is made pursuant to Section 211 (a) of the Communications Act of 1934, as amended.

1. Definitions. Capitalized terms used herein are defined in Addendum 1.

2. Service Provisioning: Controlling Documents. Qwest agrees to provide those Services set forth in the Service Exhibits; provided, however, Federal law prohibits Qwest from providing interLATA long distance services in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming (i.e." voice and data services that originate in such states, private line with one end point in those states, or toll free service that terminates in such states) until Qwest has obtained authorization to provide such services in those states, The Services are provisioned by Qwest and/or through its applicable Affiliates, subcontractors and vendors. Each Service shall be provisioned pursuant to the terms and conditions of this Agreement. To the extent that the terms of any Service Exhibit are inconsistent with the terms of this Agreement, the terms of the Service Exhibit shall control. The terms of this Agreement and the Service Exhibit shall supercede any inconsistent terms and conditions contained in an Order Form,

3, Revenue and Utilization Requirements. All term commitments and utilization requirements, if any, applicable to the Services are set forth in the Service Exhibits, There is no minimum monthly revenue commitment associated with the Services,

4, Services. Rates and Terms. Each attached Service Exhibit specifies the description, rates, charges, discounts, and other terms applicable to the Services 1. The rates do not include Taxes, access or access related charges, or CPE, All Service order requests or cancellations require Customer's completion and Qwest's acceptance of Qwest's Order Form, Unless otherwise set forth in a Service Exhibit or on an accepted Order Form, Customer is solely responsible for coordination of all local access and, in any event, shall be solely responsible for any costs associated with such access, including, without limitation, any LEC/CAP early termination fees associated with any Service provisioned hereunder.

5, Use of Name and Marks. Neither Party shall use any trademark, service mark, brand name, copyright, patent, or any other intellectual property of the other Party or its respective Affiliates without the other Party's prior written consent and in the case of Qwest, with the prior written consent of the Senior Vice President of Corporate Communications, Qwest's name is proprietary and nothing herein constitutes a license authorizing its use, and in no event shall Customer attempt to sell service to its End Users using Qwest's name. In addition, Customer shall not state to End Users or prospective End Users: (I) that they will be Qwest customers or that they may obtain Qwest service from Customer; or (Ii) that Customer has any relationship with Qwest other than an agreement to purchase Qwest's Services on a wholesale basis. Since a breach of this material obligation may cause irreparable harm for which monetary damages may be inadequate, in addition to other available remedies, the nonbreaching Party may seek injunctive relief for any disclosure in violation hereof,

6, Financial Responsibility. Payment and Security,

6,1 Payment Obligation, Unless otherwise set forth in Addendum 2 (if attached) to this Agreement, Qwest will invoice Customer monthly for Services. All invoiced amounts shall be paid via wire transfer to: National City Bank, Louisville, Kentucky, ABA #083000056, To Qwest DDA #354075341. Amounts not paid in full by the Due Date will be considered past due and subject to an interest charge commencing from the Past Due Date at the lesser rate of one percent (1.00%) per month or the maximum rate allowable by applicable law, If Customer fails to payor dispute any invoice as provided for herein by the Due Date, in addition to its termination rights under Section 8,1, Qwest may with notice: (i) refuse to accept additional Order Forms; (ii) temporarily suspend any and all Services until Customer has paid all past due amounts (including interest); and/or (iii) offset such unpaid balances from any amounts that Qwest owes to Customer under any other agreement(s) between the Parties, During any period of suspension, no Service interruption shall be deemed to occur.

6,2 Billing Disputes. All Bona Fide Disputes along with Complete Documentation must be submitted in writing and submitted with payment of all amounts due (any such withholding not to exceed twenty percent (20%) of the total invoiced amount), or, alternatively, if customer has already paid its invoice, Customer shall have sixty (60) calendar days from invoice date to give notice of a Bona Fide Dispute regarding such invoice, otherwise such invoice will be deemed correct. Notification and Complete Documentation of a Bona Fide Dispute must be sent to: Qwest Communications Corporation, 555 17th Street, 3rd Floor, Denver, Colorado 80202, Attn: Wholesale Receivables Department or by facsimile to (303) 992-1101, with duplicate notification to follow via U.S. Mail or overnight delivery. An amount will not be considered "in dispute" until Customer has provided Qwest with written notification and Complete Documentation of the Bona Fide Dispute and the Parties will promptly address and attempt to resolve the claim. Qwest, in its discretion exercised in good faith, may request additional supporting documentation or reject Customer's Bona Fide Dispute as inadequate. If Qwest rejects such Bona Fide Dispute, Qwest will so notify Customer and Customer shall pay the withheld portion of the invoice within five (5) business days of such notice, unless such payment obligation is suspended thereafter by operation of Section 21,2, If Qwest determines that the Customer is entitled to credits or adjustments for Service outages pursuant to provisions of applicable Service Exhibits then Qwest will credit Customer's invoice for such amount on the next appropriate billing cycle.

7. Term. This Agreement shall be effective as of the Effective Date and continue for twelve (12) months (the "Initial Term"). After the expiration of the Initial Term, this Agreement will continue on a month-to-month basis unless terminated by either Party on thirty (30) calendar days prior written notice (the Initial Term and any month-to-month extensions hereof shall be collectively referred to as the "Term").

8. Termination.

8.1 Termination by Qwest: Qwest may terminate this Agreement immediately and without notice: (a) if Customer is or becomes Insolvent; or (b) for Cause. If Qwest terminates this Agreement for any of the aforementioned reasons, Customer shall be obligated to pay the following: (I) any early termination fees due under any Service Exhibit; (ii) any charges accrued but unpaid as of the termination date; and (iii) in the event that Customer has Term Revenue Commitment, a revenue shortfall charge (which Customer agrees is reasonable) equal to the difference between the Term Revenue Commitment and Customer's aggregate, actual Contributory Charges through the date of such termination.

8.2 Termination by Customer. Customer may terminate a Service Exhibit for Cause, or if Cause exists to terminate all or substantially all of the Services, then Customer may terminate the Agreement in its entirety. If Customer terminates this Agreement for Cause, Customer shall only be liable for charges accrued but unpaid as of the termination date. If Customer terminates this Agreement prior to the conclusion of the Initial Term for reasons other than Cause,

Customer terminates this Agreement prior to the conclusion of the Initial Term for reasons other than Cause, Customer shall be obligated to pay the following:
(i) any early termination fees due under any Service Exhibit; (ii) any charges accrued but unpaid as of the termination date; and (iii) in the event that Customer has Term Revenue Commitment, a revenue shortfall charge (which Customer agrees is reasonable) equal to the difference between the Term Revenue Commitment and Customer's aggregate, actual Contributory Charges through the date of such termination.

9. Limitation of Liability and Disclaimer of Warranties

WITHOUT LIMITING ANY EXPRESS FINANCIAL OR LIABILITY PROVISIONS PROVIDED FOR IN THIS AGREEMENT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY INDIRECT, CONSEQUENTIAL, EXEMPLARY, SPECIAL, INCIDENTAL OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION, LOST BUSINESS, REVENUE, PROFITS, OR GOODWILL) ARISING IN CONNECTION WITH THIS AGREEMENT OR THE PROVISION OF SERVICES HEREUNDER (INCLUDING ANY SERVICE IMPLEMENTATION DELAYS/FAILURES), UNDER ANY THEORY OF TORT, CONTRACT, WARRANTY, STRICT LIABILITY OR NEGLIGENCE, EVEN IF THE PARTY HAS BEEN ADVISED, KNEW OR SHOULD HAVE KNOWN OF THE POSSIBILITY OF SUCH DAMAGES. QWEST MAKES NO WARRANTIES, EXPRESS OR IMPLIED, AS TO ANY SERVICE PROVISIONED HEREUNDER. QWEST SPECIFICALLY DISCLAIMS ANY AND ALL IMPLIED WARRANTIES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR TITLE OR NONINFRINGEMENT OF THIRD PARTY RIGHTS. NOTWITHSTANDING THE FOREGOING, QWESTS TOTAL LIABILITY HEREUNDER SHALL IN NO EVENT EXCEED THE LESSER OF: (I) CUSTOMER'S PROVEN DIRECT DAMAGES; OR (II) THE AGGREGATE AMOUNT OF ANY APPLICABLE OUTAGE CREDITS DUE UNDER THE SERVICE EXHIBIT FOR THE AFFECTED SERVICE. THE FOREGOING LIMITATION APPLIES TO ALL CAUSES OF ACTIONS AND CLAIMS, INCLUDING WITHOUT LIMITATION, BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE, STRICT LIABILITY, MISREPRESENTATION AND OTHER TORTS.

Customer acknowledges and accepts the reasonableness of the foregoing disclaimer and limitations of liability. No cause of action under any theory which accrued more than one (1) year prior to the institution of a legal proceeding alleging such cause of action may be asserted by either Party against the other. For purposes of this Section 9, all references to Qwest and Customer include their respective Affiliates, End Users, agents, officers, directors, shareholders and employees.

10. Relationship. Neither Party shall have the authority to bind the other by contract or otherwise or make any representations or guarantees on behalf of the other. The relationship arising from this Agreement does not constitute an agency, joint venture, partnership, employee relationship or franchise.

11. Assignment or Sale. This Agreement shall be binding upon the Parties' respective successors and assigns. Neither Party may assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing: (i) subject to the prior credit review and approval by Qwest, Customer may assign this Agreement without prior written consent to any Affiliate, successor through merger, or acquirer of substantially all of its assets which has the capacity to fulfill the requirements set forth in this Agreement; and (Ii) Qwest may assign this Agreement without prior written consent
(x) to any Affiliate, successor through merger, or acquirer of substantially all of its assets or (y) if necessary to be in compliance with the rules and/or regulations of any regulatory agency, governmental agency, legislative body or court of competent jurisdiction; provided that in all cases the assignee acknowledges in writing its assumption of the obligations of the assignor hereunder. Any attempted assignment in violation hereof shall be of no force or effect and shall be null and void.

12. Reporting Requirements. If reporting obligations or requirements are imposed upon Qwest by any third party or regulatory agency in connection with the use of the Services by Customer or its End Users, Customer agrees to assist Qwest in complying with such obligations and requirements, as reasonably required by Qwest and to hold Qwest harmless for any failure by Customer in this regard.

13. Customer's Resale and End User Responsibilities

13.1 Customer is solely responsible for obtaining all licenses, approvals, and regulatory authority for its operation and the provision of Services to its End Users. In connection with its resale of the Services, Customer is solely responsible for all billing, billing adjustments/credits, customer service, credit worthiness and other service-related requirements of its End Users, and Qwest shall have no liability to Customer's End Users under this Agreement. Customer's payment obligations are not contingent upon Customer's ability to collect payments or charges from its End Users, Affiliates, agents, brokers or re-sellers.

13.2 Qwest may suspend any or all of the Services immediately and/or terminate the Agreement pursuant to Section 8.1 if: (i) Customer falls to comply in all material respects with any foreign, federal, state or local law or regulation applicable to Customer's resale of the Services; or (ii) Customer or its End Users commit any illegal acts relating to the subject matter of this Agreement. Customer shall: (I) be liable to Qwest for any damages caused by any intentional or illegal acts of Customer, (e.g., slamming) in connection with its resale of the Services; and (ii) indemnify, defend and hold harmless Owest from and against any third party (including End Users') claims, actions, damages, liabilities, costs, judgments or expenses (including attorney fees) arising out of or relating to Customer's or End User's use, resale or modification of the Services.

14. Survival. The expiration or termination of this Agreement shall not relieve either Party of those obligations that by their nature are intended to survive.

15. Nondisclosure/Publicity. Neither Party shall disclose to any third party during the Term of this Agreement and for one (1) year following the expiration or termination hereof, any of the terms of this Agreement, including pricing, or other Proprietary Information of the other Party, unless such disclosure is required by any state or federal governmental agency, is otherwise required to be disclosed by law, or is necessary in any proceeding establishing rights or obligations under this Agreement. No publicity regarding the existence *and/or* terms of this Agreement may occur without either Party's prior express written consent, and such written consent in the case of Qwest, if granted, may be granted only by Qwest's Senior Vice President of Corporate Communications. The content and timing of any press releases and all other publicity regarding the Subject matter of this Agreement or the Parties' relationship with one another, if authorized, shall be mutually agreed upon by the Parties in advance. Notwithstanding anything to the contrary, neither Party may make any disclosure to any other person or any public announcement regarding this Agreement or any relation between the Parties, without the other Parties' prior written consent. [n addition, neither

Party shall use any trademark, service mark, brand name, copyright, patent, or any other intellectual property of the other Party or its respective Affiliates without the other Party's prior written consent and in the case of Qwest, with the prior written consent of the Senior Vice President of Corporate Communications. Neither Party shall have the right to terminate this Agreement and any other agreements between the parties if either Party violates this provision.

16. Waiver. The terms, representations and warranties of this Agreement may only be waived by a written instrument executed by the Party waiving compliance. Except as otherwise provided for herein, neither Party's failure, at any time, to enforce any right or remedy available to it under this Agreement shall be construed as a continuing waiver of such right or a waiver of any other provision hereunder.

17. Severability. If any provision of this Agreement is held to be invalid or unenforceable, the remainder of the Agreement will remain in full force and effect, and such provision will be deemed to be amended to the minimum extent necessary to render it enforceable.

18. Notices Except as otherwise provided herein, all required notices shall be in writing, transmitted to the Parties' addresses specified in the signature page or such other addresses as may be specified by written notice, and will be considered given either: (i) when delivered by facsimile or e-mail, so long as duplicate notification is sent via regular U.S. Mail or overnight delivery; (ii) when delivered in person to the recipient named on the signature page; (iii) when deposited in either registered or certified U.S. Mail, return receipt requested, postage prepaid; or (iv) when delivered to an overnight courier service.

19. Force Majeure/System Maintenance. Neither Party shall be liable to the other for any delay or failure in performance of any part of this Agreement if such delay or failure is caused by a Force Majeure Event. The Party claiming relief under this Section shall notify the other in writing of the existence of the Force Majeure Event and shall be excused on a day-by-day basis to the extent of such prevention, restriction or interference until the cessation of such Force Majeure Event. Qwest will use reasonable efforts during the Term of this Agreement to minimize any Service interruptions that might occur as a result of planned system maintenance required to provision the Services.

20. Governing Law. This Agreement will be governed by, enforced and construed in accordance with the laws of the State of New York without regard to its choice of law principles, except and to the extent that the Communications Act of 1934, as amended and interpreted by the FCC, applies to this Agreement. Qwest reserves the right to suspend, modify or terminate any Service without liability where: (i) Regulatory Activity prohibits, restricts or otherwise prevents Qwest from furnishing such Service; or (il) any material rate, charge or term of such Service is substantially changed by a legitimate regulatory body, governmental authority, or by order of the highest court of competent jurisdiction to which the matter is appealed. Qwest will give Customer advance notice of any modification, suspension or termination of Service pursuant to this provision to the extent reasonably permitted under the circumstances. Customer acknowledges that exigent circumstances may prohibit Qwest from reasonably providing advance notice to Customer.

21. Arbitration of Disputes

21.1 Any unresolved disputes arising out of this Agreement will be settled by binding arbitration at the office of the AAA located in Denver, CO. The arbitration will be held in accordance with the AAA Rules, as amended by this Agreement. Either Party may initiate arbitration by providing written demand for arbitration (with a copy to the other Party), a copy of this Agreement and the administrative fee required by the AAA Rules to the AAA in Denver, CO. The remaining cost of the arbitration, including arbitrator's fees, shall be shared equally by the Parties unless the arbitration award provides otherwise. Each Party shall bear the cost of preparing and presenting its case. The Parties agree to undertake all reasonable steps to expedite the arbitration process. One arbitrator will be appointed in accordance with the AAA Rules within thirty (30) calendar days of the submission of the demand for arbitration. The arbitrator shall designate the time and place in Denver, CO for the hearing within thirty (30) calendar days of his or her appointment. Qwest and the Customer agree that the arbitrator's authority to grant relief shall be subject to the provisions of this Agreement, the USAA, the ABA-AAA Code of Ethics for Arbitrators in Commercial Disputes, the Communications Act of 1934, as amended, and any other applicable law. The arbitrator shall not be able to award, nor shall any Party be entitled to receive punitive, incidental, consequential, exemplary, reliance or special damages, including damages for lost profits. The arbitrator's decision shall follow the plain meaning of the Agreement and shall be final, binding, and enforceable in a court of competent jurisdiction.

21.2 If either Party notifies the other that it intends to request an arbitration proceeding, Customer shall promptly place all disputed and withheld amounts, if any, on an on-going basis with the Escrow Agent, pursuant to a mutually agreeable escrow agreement. Qwest reserves the right to suspend provisioning of the Services or terminate the Agreement pursuant to Section 8.1 If Customer fails to comply with the above escrow obligations.

22. Headings. The headings used in this Agreement are for convenience only and do not in any way limit or otherwise affect the meaning of any terms of this Agreement.

23. Authorization. Customer represents and warrants that: (i) the full legal name of the legal entity intended to receive the benefits and Services under this Agreement is accurately set forth herein; (ii) the person signing this Agreement has been duly authorized to execute this Agreement on Customer's behalf; and (iii) the execution hereof is not in conflict with law, the terms of any charter or bylaw, or any agreement to which Customer is bound or affected. Either Party may act in reliance upon any instruction, instrument, or signature reasonably believed by the Party to be genuine. Either Party may assume that any employee of the other Party who gives any written notice, Order Form, or other instruction in connection with this Agreement has the authority to do so.

24. **Third Party Beneficiaries.** The terms, representations, warranties and agreements of the Parties set forth in this Agreement are not intended for, nor shall they be for the benefit of or enforceable by, any third party, including without limitation, Customer's End Users,

25, **Entire Agreement,** This Agreement, together with all Addenda and Service Exhibits, constitutes the entire agreement between the Parties with respect to the subject matter hereof, and supersedes all prior offers, contracts, agreements, representations and understandings made to or with Customer by Qwest or any predecessors-in-interest, whether oral or written, relating to the subject matter hereof. All amendments to this Agreement shall be in writing and signed by the Parties.

ADDENDUM 1
DEFINITIONS:

"AM" means the American Arbitration Association

"AM Rules" means the commercial Arbitration Rules of the American Arbitration Association, as amended by this Agreement.

"Affiliate(s)" means: (I) any individual, corporation, partnership, limited liability company, limited liability partnership, practice, association, joint stock company, trust, unincorporated organization or other venture or business vehicle (each an "Entity") in which a Party owns a twenty percent (20%) or greater equity interest; or (ii) any Entity which, directly or indirectly, is in Control of, is Controlled by or is under common Control with a Party, as applicable, after applying the attribution rules of Section 318 of the Internal Revenue Code. In addition to the below definition of "Control" and for the purpose of this definition, "Control" of an Entity shall also include the power, directly or indirectly, whether or not exercised to vote fifty percent (50%) (or such lesser percentage as is the maximum allowed to be owned by a foreign corporation in a particular jurisdiction) or more of the securities or other interests having ordinary voting power for the election of directors or other managing authority of such Entity.
foreign corporation in a particular jurisdiction) or more of the securities or other interests having ordinary voting power for the election of directors or other managing authority of such Entity.

"Bona Fide Dispute" means a good faith assertion of a right, claim billing adjustment or credit which Customer reasonably believes it is entitled to under the Agreement. A Bona Fide Dispute shall not include, and Customer may not withhold any amounts invoiced for, actual calls made by Customer, Customer's End Users or unauthorized third parties (e.g., fraudulent calls).

"Cause" means the failure of a Party to perform a material obligation under this Agreement which failure is not remedied, if curable: (a) in the event of a payment or security default, upon five (5) calendar days written notice, or (b) in the event of any other general default, upon thirty (30) calendar days written notice (unless a shorter notice period is expressly set forth in the Agreement, in which case the shorter notice period shall apply).

"Change of Control" shall be deemed to have occurred with respect to Customer if: (a) any entity having previously Controlled (as hereinafter defined) Customer, ceases to do so; (b) any entity acquires Control of Customer (whether by reason of acquisition, merger, reorganization, operation of law or otherwise); or (c) all, or substantially all, of the assets of Customer or an entity that Controls Customer are acquired (whether by reason of acquisition, merger, reorganization, operation of law or otherwise) by, or combined by merger with, any other entity. A Change of Control shall not include any assignment permitted under this Agreement pursuant to Section 11.

"Complete Documentation" means documentation and other detailed written support which identifies with specificity the basis and the charges which are subject to the Bona Fide Dispute, the Service interruption credit or other credit to which Customer reasonably believes itself entitled, and the amounts being withheld by Customer pending resolution of such Bona Fide Dispute.

"Contributory Charges" means recurring charges, usage charges and other qualifying charges applicable to the Contributory Services accruing to Customer's account under this Agreement, before application of all eligible discounts and excluding all Taxes, nonrecurring charges, fees, CPE charges, issued credits, uncollectable Customer charges, pass-through charges, installation charges, local access and access-related charges, and any other charges expressly excluded in the applicable Service Exhibits.

"Contributory Services" means all of the following services: (i) Domestic Qwest Express Originating and Terminating Usage; (il) Qwest Express International Terminating Usage (including Canadian and Mexican); (iii) Qwest Express Directory Assistance Usage; (iv) Qwest Express Canadian Origination Service; (v) ReQwest Switchless Reseller Services; (vi) all eligible Dedicated Internet Access Monthly Recurring Charges ("MRCs"); and (vii) all other eligible Dedicated Facilities MRCs (e.g., Frame Relay, Private Line, and ATM Services).

"Control" (and "Controls," "Controlling," "Controlled by" and "under common Control with" shall be construed accordingly) as applied to any Party means the possession directly or indirectly of the power to direct or cause the direction or the management and policies of that Party, whether through the ownership of voting securities, partnership or equity, by contract or otherwise. Where any two parties together satisfy any of this definition, they shall be deemed to have Control. For purposes of this definition, there shall be attributed to any Party rights and powers of a nominee for it (that is to say, any rights or powers that another Party possesses on its behalf or may be required to exercise on its direction or behalf).

"CPE" means customer premise equipment, software and/or other materials associated with the Service.

"Direct Damages" means those damages that follow immediately upon the act done and which arise naturally or ordinarily from breach of contract, but as used herein shall expressly exclude any cover-type damages.

"Due Date" means thirty (30) calendar days from the invoice date.

"End User(s)" mean Customer's end-users or customers.

"Effective Date" means the date on which the Agreement is fully executed by all Parties.

"FCC" means the Federal Communications Commission.

"Force Majeure Event" means an unforeseeable event (other than a failure to comply with payment obligations) beyond the reasonable control of a Party, including without limitation: act of God; fire; flood; labor strike; sabotage; fiber cut; material shortages or unavailability or other delay in delivery not resulting from the responsible Party's failure to timely place orders therefor; lack of or delay in transportation; government codes, ordinances, laws, rules, regulations or restrictions; war or civil disorder.

"Insolvent" means the occurrence of any of the following events, whereby Customer (i) becomes or is declared insolvent or bankrupt; (ii) is the subject of any proceedings related to its liquidation, insolvency or for the appointment of a receiver or similar officer for it; (iii) makes an assignment for the benefit of all or substantially all of its creditors; or (iv) enters into an agreement for the composition, extension, or readjustment of all or substantially all of its obligations.

"Order Form" means Service order request forms issued by Qwest, as amended from time to time.

"Parties" means collectively Qwest and Customer.

"Party" means either Qwest or Customer.

"Past Due Date" means the first calendar day following the Due Date.

Proprietary Information" means written information that is either: (a) marked as confidential and/or proprietary, or which is accompanied by written notice that such information is confidential/proprietary, or (b) not marked or notified as confidential/proprietary, but which, if disclosed to any third party, could reasonably and foreseeably cause competitive harm to the owner of such information.

"Regulatory Activity" means any regulation *and/or* ruling, including modifications thereto, by any regulatory agency, legislative body or court of competent jurisdiction.

"Services" means the Qwest services provided pursuant to any Service Exhibit attached hereto.

"Service Exhibits" means those service descriptions and rate schedules attached hereto as an exhibit, pursuant to which Qwest shall provide and Customer shall purchase the applicable Services. "Taxes" means any and all applicable foreign, federal, state and local taxes, including without limitation, all use, sales, value added, surcharges, excise, franchise, property, commercial, gross receipts, license, privilege or other similar taxes, levies, surcharges, duties, fees, or other tax-related surcharges, whether charged to or against Qwest or Customer, with respect to the Services or underlying facilities provided by Qwest.

"USAA" means the United States Arbitration Act.

Endnotes

1 If Customer is an existing wholesale customer of Qwest, then; (a) the rates and discounts, if any, set forth in each Service Exhibit attached to this Agreement will be effective as of; (I) the date Customer signs the Agreement provided that it is returned to Qwest on or before the tenth (10th) business day preceding the close of Customer's existing billing cycle (the "Due Date"); or
(ii) if returned to Qwest after the Due Date, the first (1st) day of the next full billing cycle applicable to the Services provisioned there under; and (b) the terms and conditions of such Service Exhibits contemplated by this Agreement are only for Service outside the foregoing fourteen state region set forth in Section 2 of this Agreement.
Since certain international rates are subject to change on five (5) days notice, Customer acknowledges that, until this Agreement is returned to Qwest, those international rates as set forth in a Service Exhibit may change and that, once this Agreement is executed, the international rates then in effect will be implemented by Qwest. Thereafter, changes to those international rates shall be made pursuant to the rate change process provided for in each Service Exhibit.

INTERNATIONAL CALL TERMINATION AGREEMENT

This International Call Termination Agreement ("Agreement") is entered into by and between Fusion Telecommunications International, Inc. ("Provider"), and AT&T, on behalf of itself and its affiliated companies (collectively "Purchaser"). (Either Provider or Purchaser may also be referred to individually as a "Party" or collectively as "Parties".)

WHEREAS, Provider provides telephone communications services between the United States and the termination points specified in Exhibit A; and

WHEREAS, Purchaser desires to purchase and Provider desires to sell, upon the terms and conditions set forth in this Agreement, telephone communications services to Purchaser.

NOW THEREFORE, the Parties agree as follows:

1. Scope. Provider shall sell to Purchaser international call termination capability for IDDD Traffic (hereinafter "Services") on the terms and conditions set forth in this Agreement and for the price specified in Exhibit A (attached), when and if Purchaser submits an order for such Services. This Agreement contains no minimum purchase commitment. Provider represents to Purchaser that any Services provided under this Agreement are Provider's own Services or those acquired from a third parties but not from Purchaser.

2. Definitions. The following terms shall have the meanings set forth below:

.1

Affiliate shall mean any entity that is a holding company of a Party, a subsidiary of a Party or a subsidiary of a holding company of a Party, an entity in which any of the above has a controlling interest, an entity which has a controlling interest in any of the above, or an entity under common control of a Party.

2.2

a. "Conversation Time", shall have the meaning specified in Article 1.2.2 of ITU Recommendation 0.150, that is: the interval that elapses between (a) the moment when the reply condition (answer signal in the backward direction) is detected at the point where the recording of the call duration takes place, and (b) the moment when the clear forward condition (clear forward signal) is detected at the same point.

b. "Conversation Minutes", are calculated as follows for each terminating country: an arithmetic total of seconds of Conversation Time for all calls to that country during a given settlement month is computed, and that total is then converted from seconds to minutes, rounding up any remaining fractional minute to the next whole minute.

2.3 IDDD Traffic shall mean international direct dial voice, fax or data communications provided under this Agreement.

3. Term. Unless terminated earlier pursuant to section 5 below, this Agreement shall be in effect and the Parties' obligations shall commence on 1/1/06 ("Effective Date") and shall continue for an indefinite period until terminated pursuant to Clause 5.

4. Meet Point. The meet point with Provider's telecommunications equipment shall be Purchaser's switch located at [to be determined by the Parties]. The Parties may at any time change the meet point by mutual agreement.

5. Termination.

5.1 Either Party may terminate this Agreement at any time (and without cause) by giving the other thirty (30) days written notice to that effect.

5.2 Either Party may terminate this Agreement, effective immediately, by giving the other Party written notice of termination upon such Party's default in its performance or breach of its obligations under this Agreement (other than the timely payment of amounts owed by the Purchaser under this Agreement).

5.3 The respective obligations of the Parties, which by their nature would continue beyond the termination of this Agreement, shall survive the termination or expiration of this Agreement, including but not limited to provisions relating to confidentiality of information and dispute resolution.

6. Invoice.

6.1 Provider shall deliver to Purchaser an invoice every fifteen days setting forth charges for the previous fifteen-day period. An invoice shall include, but shall not be limited to, the following information:

- Traffic Month (Calendar period in which the traffic was sent.)
- Rate Period (The period in which the rate was effective.)
  Examples include
  - "Effective 1/1/2005 through 1/31/2005" or,
  - "Effective 1/1/2005 through 1/10/2005 and 1/11/2005 through 1/21/2005 and 1/22/2005 through 1/31/2005"
- Destination Country
- Number of Calls
- Number of Conversation Minutes
- Rate per Conversation Minute per Destination Country
- Total Amount of Charges

Charges shall be calculated based on network Conversation Minutes. For billing purposes the Parties agree that the duration of each call during a billing period shall be measured based on the actual seconds of billable Conversation Time. An arithmetic total of seconds for all calls during a particular service month shall then be computed. The sum of said addition shall be converted from seconds to minutes rounding up the last second to the next whole minute. There shall be a minimum billing period for an initial period of 1-second and additional incremental charges in 1-second increments thereafter, except for Mexico, which will be billed at an initial period of 60 second with additional incremental charges in 60 second increments. Provider shall provide an invoice to Purchaser as soon as practicable after the close of the service period to which the invoice relate but in no event later than sixty (60) days after the close of the month in which the Services were provided, unless otherwise agreed to by the Parties.

6.2 Parties hereby specifically agree that the Parties may, in their sole discretion, net against and/or set-off amounts payable by the other Party or a Party affiliate to the other Party or any of their affiliates against any unpaid billed balances for any services. This provision applies to both amounts presently due and amounts that will become due in the current billing period. Payment of the net amount due to the other Party will be made within twenty-one (21) days from the date that the invoice was received by the respective Party (the "Due Date").

6.3 In the event that Purchaser disputes Provider's computation of the charges or amounts due and owing, Purchaser shall nevertheless pay all the charges, which are not in dispute. There shall be no late charges or interest imposed by Provider on the disputed amounts. Any request for billing adjustments shall be made within sixty (60) days of the invoice date. The Parties shall compare the data from their respective switch registers and shall in good faith attempt to resolve any data discrepancies. Any amounts, which are determined to be billed in error will be credited against the next billing period s invoice or refunded to Purchaser at Purchaser's option. Disputed amounts shall be resolved by escalation to the next management level within the respective Party organizations.

7. Prices. Provider shall charge Purchaser for the Services provided hereunder the rates as specified in Exhibit A. The prices set forth in Exhibit A are expressed in US Dollars. Provider will not assess Purchaser (or Purchaser's customer) any rate, charge, fee, tax, or surcharge in connection with any Services provided hereunder, except those specifically agreed to herein Provider agrees to follow the procedures set forth in Exhibit A in order to incorporate its prices and to effect any price changes. Prices are firm and any price changes will be subject to the notice provisions in Exhibit A.

8. Quality Standards. Purchaser reserves the right to terminate a route at any time if in its sole discretion it fails to meet the desired quality. Provided however, no warranty, express or implied, shall be given to Purchaser other than as expressly set forth in this Agreement.

9. Taxes. Upon demand by Provider, Purchaser shall furnish Provider with a properly executed Certificate of Exemption for all foreign, federal, state, county and local taxes and fees (if any) and shall be responsible for the collection of all applicable end-user taxes and fees and the remittance of such taxes and fees to the relevant governmental authority (if any).

10. Maintenance. Provider represents to Purchaser that Provider presently is and shall at its expense maintain the transmission system (including necessary back-up systems) required to furnish the Services provided hereunder. Provider shall notify Purchaser at least two (2) weeks prior to any planned service outage required for testing and maintenance purposes, except for emergency outage situations which Provider will notify Purchaser of and make every effort to minimize impact, and shall use commercially reasonable efforts to provide Purchaser with alternative routing.

11. Limitation of Liability. EACH PARTY'S LIABILITY TO THE OTHER, IF ANY, IS LIMITED TO DIRECT PROVEN DAMAGES. NEITHER PARTY ITS PARENT, AFFILIATE OR SUBSIDIARY, SHALL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, RELIANCE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING, AMONG OTHER THINGS, LOST PROFITS OR REVENUE) SUSTAINED OR INCURRED IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT AND PROCESSES PERFORMED UNDER THIS AGREEMENT. THE LIMITATION OF LIABILITY SET FORTH HEREIN SHALL APPLY REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, WARRANTY, STRICT LIABILITY, TORT (INCLUDING, WITHOUT LIMITATION, NEGLIGENCE OF ANY KIND) OR OTHERWISE; AND REGARDLESS OF WHETHER A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES AND WHETHER SUCH DAMAGES WERE FORESEEABLE.

12. The Parties agree that they have implemented appropriate programs and safeguards in order to comply with the requirements of the US Foreign Corrupt Practices Act.

13. At all times during the term of this Agreement, the Parties represent and warrant that it has they each have and maintain in full force and effect all licenses, permits and authorizations from all governmental entities in the U.S. to the extent the same are required or devisable for the performance of the respective obligations hereunder.

14. Indemnification. The Parties shall defend, indemnify and hold one another harmless from and against all claims, including third party claims, demands, actions, causes of action, judgments, costs and reasonable attorneys' fees (arising from or related to any use, purchase or sale of the Service or otherwise arising under this Agreement.

15. PROVIDER SPECIFICALLY DISCLAIMS, ANY WARRANTY, WHETHER EXPRESS OR IMPLIED, OR ARISING FROM USAGE OF TRADE OR STATUTE, AS TO THE DESCRIPTION, QUALITY, MERCHANTABILITY, COMPLETENESS OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE SERVICES PROVIDED BY IT OR ANY OTHER SERVICES PROVIDED HEREUNDER OR DESCRIBED HEREIN.

16. No Agency. Neither Party is authorized to act as an agent for, or legal representative of, the other Party and neither Party shall have the authority to assume or create any obligation on behalf of, in the name of, or binding upon the other Party.

17. Force Majeure. Neither Party shall be liable in any way for delay, failure in performance, loss or damage due to any of the following: fire, strike, embargo, explosion, earthquake, volcanic action, flood, war, civil or military authority, acts of the public enemy or other causes beyond its control.

18. No Waiver. The failure of either Party to enforce or insist upon compliance with any of the provisions of this Agreement or the waiver thereof, in any instances, shall not be construed as a general waiver or relinquishment of any other provision of this Agreement.

19. Binding Effect, Non-Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective, successors and assigns. Neither Party shall assign this Agreement or any right or interest under this Agreement nor delegate any work or obligation to be performed under this Agreement (an "assignment"), without the other Party's prior written consent. Any attempted assignment in contravention of this provision shall be void and ineffective. Either Party shall provide written notice to the other Party of any material change in ownership of such first Party. A change in the controlling share ownership of a party shall not be considered an assignment.

20. Amendment. This Agreement may be amended only by an instrument in writing, executed by both Parties. No modification or amendment hereto shall be effected by the acknowledgment or acceptance by either party of any purchase order, sales acknowledgment or other similar form from the other Party.

21. Merger. This Agreement (including its exhibits) merges and supersedes all prior agreements, promises, understandings, statements, representations, warranties, indemnities and covenants regarding the subject matter hereof, whether written or oral, and constitutes the parties' complete and entire understanding with respect to the subject matter hereof.

22. Interpretation. The words and phrases not specifically defined herein shall have the meaning generally understood in the telecommunications industry. This Agreement shall be construed in accordance with its fair meaning and not for or against either party on account of which party drafted this Agreement.

23. Third Party Beneficiaries/Parties in Interest. This Agreement has been made and is made solely for the benefit of the Provider and Purchaser, and their respective successors and permitted assigns. Nothing in this Agreement is intended to confer any rights/remedies under or by reason of this Agreement on any third party.

24. Representation of Authority. Each party represents and warrants to the other that the execution and delivery of this Agreement and the performance of such Party's obligations hereunder have been duly authorized and that the Agreement is a valid and legal agreement binding on such Parties and enforceable in accordance with its terms.

25. Governing Law. This Agreement shall in all be governed by, construed and enforced in accordance with the laws of the State of New York excluding its choice of law rules.

26. Dispute Resolution.

26.1 Any controversy, dispute, claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, shall be settled by binding arbitration in New York, New York in accordance with the American Arbitration Association Rules as presently in force.

26.2 The number of arbitrators shall be three. Each Party shall select one arbitrator and both Parties shall select third arbitrator. If the Parties cannot agree on the selection of a third arbitrator, such arbitrator shall be selected by the American Arbitration Association according to its rules. The arbitrator(s) may not limit, expand or otherwise modify the terms of this Agreement. The Arbitrator(s) shall not have the authority to award punitive or other non-compensatory damages to either Party. The arbitrators shall not have a power to award any damages in excess of the limits set forth in the Limitation of Liability section of this Agreement. Any award of the arbitrator shall be in writing and shall state the detailed reasons for the award. The losing party shall bear arbitration costs and expenses, including reasonable attorneys' fees and costs. This is covered in the AAA rules. The arbitrator shall have no power to order pre-hearing discovery of documents or the taking of depositions, but may compel attendance of witnesses and the production of documents at the hearing. The parties, their representatives, other participants and arbitrator shall hold the existence, content and results of arbitration in confidence. The language of the arbitration shall be English.

27. Use of Proprietary Information.

27.1 In the event that either Party in negotiation of or in the course of performance of its obligations to the other under this Agreement, obtains or receives proprietary information from the other, each agrees to use such information only for the purpose of complying with its obligations under this Agreement (and in particular not to use such information for its own marketing purposes) and on the terms and conditions specified herein. "Proprietary Information" shall mean this Agreement and all information disclosed orally or in writing by one party to the other party and which is clearly identified by the disclosing party at the time of disclosure as proprietary information of the disclosing party. The obligations of the receiving party set forth in this section shall not apply to any Proprietary Information:

i. which is independently developed by the receiving party or its affiliated company or lawfully received free of restriction from another source having the right to so furnish such Proprietary Information; or

ii. after it has become generally available to the public without breach of this Agreement by the receiving party or its affiliated company; or

iii. which, when furnished to the receiving party, was known to such party or its affiliated company free of restriction as evidenced by documentation in such party's possession; or

iv. which the furnishing Party agrees in writing is free of such restrictions.

27.2 Further, the receiving party may disclose Proprietary Information pursuant to any judicial or governmental requirement or order or as required by applicable laws. In such case, the receiving Party shall notify the disclosing party of such requirement or order and shall use its best efforts to obtain a protective order to protect such Proprietary Information.

27.3 All information concerning a Party's traffic volume/distribution and the identity of the customers provided to the other Party or learned about in connection with this Agreement is hereby acknowledged to be Proprietary Information regardless of whether or not it is so identified and shall not be circumvented for a party's own use from the other party.

27.4 No license to a Party, under any trademark, patent, copyright, mask work protection right or any other intellectual property right, is either granted or implied by the conveying of Proprietary Information to such party. All Proprietary Information shall remain the property of the disclosing party and shall be returned upon written request or upon the receiving party's determination that it no longer has a need for such Proprietary Information.

28. Notices. All notices, identifications, formal requests or other formal communications required or desired to be given in connection with this Agreement, shall be in writing and shall be deemed to have been duly delivered when delivered in person, three (3) days after being mailed by registered or certified post (postage prepaid) or when sent by Telex or facsimile ("FAX") to the recipient party, unless the parties otherwise agree in writing. Notice shall be addressed to the following:

To Provider:

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
420 Lexington Avenue
Suite 518
New York, New York 10170

To Purchaser:

Carolyn Cheney
AT&T
412 Mt. Kemble Ave.
Room 212C
Morristown, NJ *07962*

29. Survival of Obligations. The Parties rights and obligations which by their nature would continue beyond the termination, cancellation or expiration of this Agreement, shall survive such termination, cancellation or expiration.

30. This agreement shall become binding only upon execution by the duly authorized representative of AT&T and Fusion Telecommunications International, Inc. and, where applicable, upon submission and/or acceptance of the agreement by regulatory authorities.

31. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the Services. This Agreement supersedes all prior agreements, proposals, representation, statements, or understandings whether written or oral concerning the Services or the parties' rights or obligations relating to the Services. Any prior representations, promises, inducements, or statements of intent regarding Services that are not embodied in this Agreement are of no effect.

CConcurred on behalf of AT&T	**Approved on behalf of Fusion Telecommunications International, Inc.**
By: /s/ **CAROLYN CHENEY**	By: /s/ **JAN SARRO**
Name: Carolyn Cheney	Name: Jan Sarro
Title: Director, International Settlements And Cost Management	Executive Vice President
Date: 4/6/06	Date: 4/3/06

Approved on behalf of AT&T	**Approved on behalf of Fusion Telecommunications International, Inc.**
By: /s/ **ADRIENNE SCOTT**	By:
Name: Adrienne Scott	Name:
Title: Vice President, Global Service Provider Markets	Title:
Date: 4/13/06	Date:

CARRIER SERVICE AGREEMENT

This Carrier Service Agreement is entered into on October 24, 2002, between Fusion Telecommunications International, Inc. a Delaware corporation ("Provider"), having its principal place of business at 420 Lexington Avenue, Suite 518, New York, NY 10170 and T-Systems USA ("Purchaser"), a ___________ corporation, having its principal office at ____________________.

Recitals:

A. Provider provides telecommunications services between its location and the outbound termination points identified on Exhibit A attached hereto and incorporated herein by this reference, and

B. Purchaser desires to purchase, upon the terms and conditions set forth in this Agreement, telecommunications services from Provider.

Agreement:

Now, therefore, intending to be legally bound, the parties agree as follows:

1. **Rates, Terms, and Conditions:** Provider shall provide telecommunications services to Purchaser at the rates, terms, and conditions described in Exhibit A, and to the termination points set forth in Exhibit A. Purchaser acknowledges that the per minute rates set forth on Exhibit A are preferential rates based on prompt payment on or before the Due Date. The services to be provided are limited to those set forth in Exhibit A. Rates listed in Exhibit A or any subsequent rate sheet are subject to change by Provider with five (5) days written notice to Purchaser.

2. **Period of Service:** This Agreement shall become effective and the parties' obligations shall commence on the date set forth in Exhibit A of this Agreement and shall continue for a period of one year (12 months) from such date (the "Initial Term"). This Agreement will be automatically renewed on a month-to-month basis after the expiration of the initial term or any subsequent term. If either party desires to cancel this Agreement upon the expiration of the current term or any subsequent term, it shall give the other party written notice of its intent to cancel at least twenty (20) days prior to the expiration of the current term. This Agreement shall continue and remain in full force and effect until canceled by either party upon notice as provided herein.

3. **Security:** After service commencement, Provider, at its option, may request additional security if: (a) Purchaser's payment history, financial circumstances, or credit exposure becomes unacceptable, (b) if Purchaser's account balance, plus unbilled usage exceeds the amount of any security deposit or assurance requirement, or (c) in light of Purchaser's actual usage when compared to projected usage levels upon which an prior security or assurance requirement was based. Purchaser shall provide the requested additional security within five business days after request by Provider. In the event that Purchaser fails to provide the requested security in accordance with this provision, Provider may suspend service and/or terminate this Agreement without further notice.

4. **Additional Security Provisions:** The dollar value of service available to Purchaser shall be limited to the dollar amount of the prepayment or security deposit available to Provider. The amount of any required prepayment, cash security deposit, or letter of credit is outlined in Exhibit A. Any letter of credit shall be substantially similar form to Exhibit A to this Agreement and shall be from a financial institution reasonable acceptable to Provider.

5. **Billing Increments:** All traffic shall be billed with an initial 30 second minimum increment, followed by 6 second additional increments; (i.e. a minimum call length of 30 seconds with all additional usage rounded up to the nearest 6 second increment). The sole exception to

this billing arrangement shall be traffic terminating in Mexico, which shall be billed in full minute increments (i.e. a minimum call length of 60 seconds with additional usage rounded up to the nearest full minute.)

6. **Billing Period/Payment Schedule:** The billing period shall be monthly, commencing at 12:00:00 a.m., Eastern Standard Time, on Monday and continuing through 11:59:59 p.m. Eastern Standard Time, the following Sunday. Provider shall send bill to Purchaser for service provided during the preceding billing period (i.e. the prior seven days), via e-mail or facsimile, by close of business each Monday. Payment of the undisputed amount shown on the bill is due from purchaser by 5:00 p.m., Eastern Standard Time, thirty days from receipt of invoice (the "Due Date"). All payments are to be made by wire transfer per the banking information detailed in Exhibit B. The charges for services that are not paid by the Due Date shall be deemed past due. The uncollectability, fraud, or any other problem that may affect Purchaser in the assessment, appraisal, accounting, billing, or collecting of debt will never exempt Purchaser from the obligation of full payment to Provider. Any payment received by Provider after the Due Date shall be subject to an interest charge on delinquent amounts from the date such amounts were due at the rate of one and a half percent (1.5%) of the late payment per month (or, if unlawful, the maximum lawful rate allowable under applicable law).

7. **Taxes:** Purchaser acknowledges and understands that all charges stated in the Exhibits hereto are computed by Provider exclusive of any applicable use, excise, gross receipts, sales and privilege taxes, duties, fees or other taxes, or similar liabilities, including but not limited to universal service or pursuant to similar regulatory, federal or state laws, whether charged to or against Purchaser or Provider because of the services furnished to Purchaser pursuant to this Agreement ("Additional Charges"). Purchaser also acknowledges and understands that such Additional Charges will be invoiced by Provider only if Purchaser has not provided Provider with a direct payment permit, sale for resale exemption certificate, sales tax exemption certificate, or other applicable exemption certificate and any non-exempt Additional Charges shall be paid by Purchaser, in addition to all other charges provided for herein.

8. **Billing Disputes:** If Purchaser, in good faith, disputes the amount or appropriateness of a charge included in an invoice; it shall notify Provider in writing and provide supporting documentation establishing such claim. Such documentation supporting disputed charges shall include a detailed analysis showing the difference between the specific invoice amount and Purchaser's specific asserted amount. A summary of the disputed charges will not be accepted. Purchaser shall further provide ail information reasonably requested by Provider including, but not limited to, call detail records (CDRs), to resolve the dispute. Such notification shall not relieve Purchaser of the obligation to make all undisputed payments, by the Due Date. Any resolution made by Provider in favor of Purchaser shall be credited to Purchaser's next invoice. Failure to contest a charge within thirty (30) calendar days from receipt of an invoice shall create an irrefutable presumption of the correctness of the charge.

Upon dispute, the parties agree to use their best efforts to resolve the dispute in good faith within thirty (30) calendar days of Purchaser's receipt of invoice. In the event that the parties are unable to resolve the dispute within this thirty (30) day period, the dispute shall be submitted to arbitration as otherwise provided for in this Agreement.

9. **Dispute Resolution:** In the event of any controversy or claim arising from or related to this Agreement, its performance or interpretation, the parties, in good faith, initiaily wil attempt to resolve the dispute among themselves. Failing such resolution, the dispute will be settled by binding arbitration conducted in accordance with the commercial Arbitration Rules of the American Arbitration Association ("AAA Rules"), as amended by this Agreement, and judgment upon the award rendered by the arbitrator(s) may be entered by any court with jurisdiction. The location of the arbitration shall be New York, New York. The cost of the arbitration, including the fees and expenses of the arbitrator(s), shall be shared equally by the parties, unless the arbitration award provides otherwise. Each party shall bear the cost of preparing and presenting

its case. The arbitrator(s) are not empowered to award damages in excess of compensatory damages, and each party irrevocably waives any damages in excess of compensatory damages.

10. **Right to Collect Against Funds On Deposit:** IF FULL PAYMENT OF UNDISPUTED AMOUNNTS IS NOT RECEIVED BY PROVIDER WHEN DUE, PROVIDER SHALL HAVE THE RIGHT, WITH 48 HOUR NOTICE, TO MAKE PAYMENT OUT OF FUNDS ON DEPOSIT. FOR THE PURPOSES OF THIS AGREEMENT, PAYMENT SHALL NOT BE DEEMED TO BE MADE UNTIL FUNDS HAVE CLEARED INTO PROVIDER'S ACCOUNT.

11. **Service Interconnections:**

11.1 **Interconnection of Purchaser Facilities:** In order to receive services from Provider hereunder, Purchaser must establish dedicated DS-1 circuits between Purchaser's designated network and Provider's dedicated network meet point ("POP"), as specified in Exhibit A. Purchaser shall pay any installation costs and continuing charges for circuits used to connect Purchaser to Provider's POP in compliance with network interface procedures.

12. **Termination:**

12.1 **Regulatory Changes:** If the FCC, any state or other regulatory agency or court of competent jurisdiction elects to implement or enforce a rule, regulation, law or order which has the effect of cancelling, changing, or superseding any material term or provision of this Agreement or rate charged (collectively "Regulatory Requirement"), then this Agreement shall be deemed modified in such a way as the parties mutually agree is consistent with the form, intent, and purpose of this Agreement and as is necessary to comply with such Regulatory Requirement. Should the parties not be able to agree on modifications necessary to comply with a Regulatory Requirement within thirty (30) days after the Regulatory Requirement is implemented or enforced, then upon written notice either party may, to the extent practicable, terminate that portion of this Agreement impacted .by the Regulatory Requirement enforcement.

12.2 **Non-Payment:** If Payment has not been received by the Due Date, for all charges (including transmission charges, service charges, and monthly fixed charges, if any) billed to Purchaser, then Provider may, at its sole discretion and with ten (10) days prior written notice to Purchaser, terminate transmission services and/or this Agreement in part or in whole.

12.3 **Corporate Dissolution:** Either party may terminate this Agreement in the event the other party makes an arrangement or composition with its creditors generally, or makes an application to a court of competent jurisdiction for protection from its creditors generally or a bankruptcy order is made against the other party, or a resolution is passed by it for its winding up, a court of competent jurisdiction makes an order for its winding-up or dissolution, an administration order is made in relation to it, or a receiver is appointed over (or an encumbrance takes possession of or sells) any of its assets.

12.4 **Breach of Agreement:** In the event of a breach of any material term or condition of this Agreement by a party (other than failure to pay which is covered under Section12.2 above or failure to provide additional security which is covered under Section 3 above), the other party may terminate this Agreement upon thirty (30) days written notice, unless the breaching party cures the breach during the thirty (30) day period.

12.4.1 Upon any material breach by Purchaser after expiration of all applicable notice and cure periods, Provider may at its sole option do any or all of the following:

(I) cease accepting traffic;
(II) cease all electronically and manually generated information ahnd reports;
(III) draw on any letter of credit, security deposit, or other assurance of payment and enforce interest provided by Purchaser;

(IV) terminate this Agreement and services without liability to Provider
(V) pursue such other legal or equitable remedy or relief as may be appropriate.

12.5 **Network Protection:** In the event Purchaser's service traffic volumes (or traffic distribution patterns to individual cities and countries) results in a lower than industry standard completion rate, severely abnormal or disproportionate distribution of traffic by city, or other similar abnormality, which adversely affects the Provider network (including, but not limited to looping situations where Purchaser's traffic is delivered by Provider to another carrier for termination and ultimately returned to Provider), Provider reserves the right to block and refuse to accept such adverse traffic at any time, with prompt notice as soon as possible thereafter.

13. **No Warranties:** PROVIDER SHALL USE REASONABLE EFFORTS TO PROVIDE TELECOMMUNICATION SERVICES TO PURCHASER; HOWEVER, PROVIDER MAKES NO WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE TRANSMISSION SERVICES PROVIDED HEREUNDER AND EXPRESSLY DISCLAIMS ANY WARRANTY OF MERCHANTABLILTY, DESCRIPTION, OR FITNESS FOR ANY PARTICULAR PURPOSE OR FUNCTION.

14. **Waiver of Liability:** As a material inducement for Provider to provide the services hereunder at the prices stated, Purchaser agrees that Provider shall in no event be liable to Purchaser or Purchaser's own customers for any loss, expense, or damage for (i) loss of revenue, profits, savings, business, or goodwill, and (ii) exemplary, proximate, consequential, or incidental damages and expenses of any type or nature on account of any breach or default thereunder by Provider or on account of the use or nonuse or the services.

15. **Indemnity:** Purchaser shall indemnify and hold harmless Provider, its stockholders, officers, directors, employees, and agents from any and all loss, cost, damage, expense, or liability, including without limitation, court costs and reasonable attorneys' fees, arising out of in whole or in part, directly or indirectly, the installation, hook-up, maintenance, service, or trouble-shooting of the transmission services described in this Agreement, including any interruption of transmission service to Purchaser, its employees, agents, and customers, except when caused by the gross negligence or willful misconduct by the Provider or the intentional violations of any applicable law or governmental regulation by Provider.

16. **Provision of Information and Confidentiality:**

16.1 Each party undertakes to the other to promptly provide all information and assistance, which the other may reasonably require to enable it to perform its obligations under this Agreement.

16.2 Subject to sub-Section 15.3, each party undertakes to the other that it will treat as confidential, and will use its reasonable endeavors to procure that its directors, employees, professional advisers and agents will treat as confidential, the terms and conditions of this Agreement, as well as all data, summaries, rates, reports, or information of all kinds and all other confidential information whether of a technical or business nature or otherwise relating in any manner to the business or affairs of the other party, which it may receive in connection with this Agreement, and will not (and will use its reasonable endeavors to procure that its directors,. employees, professional advisers and agents will not) disclose or use such information other than strictly for the purposes of this Agreement, except with the written permission of the other party.

16.3 The provisions of sub-Section 16.2 shall not apply to information held by a party which:

16,3.1 is in or comes into the public domain other than by breach of this Agreement;

16.3.2 is obtained by that party from a third party who has the right to disclose it;

16.3.3 is or has been independently generated by the that party (but not including data generated by that party about calls handed over by the other party); or

16:3.4 is in the possession of or is known to that party prior to the date of this Agreement, to the extent that party is not bound by any confidentiality obligation in respect of such information to the other party.

16.4 The following disclosures by either party shall not constitute a breach of sub-Section 16.2:

16.4.1 a disclosure of information necessary to comply with any law or the valid order of a court of competent jurisdiction or the regulation or request of any governmental or other regulatory authority or agency, provided that the party disclosing the information shall request confidential treatment of such information by the third party to which .it is disclosed;

16.4.2 a disclosure of information to a party's auditors and/or other professional advisors, or as part of its normal reporting or review procedure to its parent company, members, or partners, as the case may be, provided that the party disclosing the information will endeavor to procure that its auditors, professional advisors, parent company, members, and partners will also treat such information as confidential;

16.4.3 a disclosure of information made in order to enforce its rights under this Agreement;

16.4.4 a disclosure made to a financial institution, lender of funds, or financial advisor where such disclosure is required as part of an arrangement for the financing or refinancing of such party; provided, however, that before making any disclosure pursuant to this sub-Section 16.4, the recipient party agrees that it will provide the disclosing party with prompt written notice so that the disclosing party has the opportunity to pursue Its legal and equitable remedies regarding potential disclosure.

16.5 On termination of this Agreement for whatever reason, the recipient party shall return to the disclosing party (or, at the discretion of the disclosing party, destroy) all copies of confidential information of the other party, which it has in its possession. The provisions of this Section 16 shall survive the termination or expiry of this Agreement for any reason whatsoever.

17. **No Agency:** Neither party is authorized to act as an agent for or legal representative of the other party, and neither party shall have the authority to assume or create any obligation on behalf of, or in the name of, or binding upon the other party.

18. **Force Majeure:** The parties' obligations under this Agreement are subject to, and neither party shall be liable for (except for the obligation to pay money by Purchaser): delays, failures to perform, damages, losses or obstruction, or malfunction of any equipment or any consequence thereof caused or occasioned by, or due to fire, flood, water, the elements, labor disputes or shortages, utility curtailments, power failures, explosion, civil disturbances, governmental actions, shortages of equipment or supplies, unavailability of transportation, acts or omissions of third parties, or any other cause beyond the party's reasonable control. Purchaser shall not represent that Provider is responsible for the type or quality of Purchaser's services to its customers.

19. **No. Waiver:** The failure of either party to enforce or insist upon compliance with any of the provisions of this Agreement or the waiver thereof, in any instance, shall not be construed as a general waiver or relinquishment of any other provision of this Agreement.

20. **Binding Effect:** This Agreement shall be binding upon and inure to the benefit of the parties' hereto and their respective heirs, successors, and assigns.

21. **No Assignment:** Neither party shall voluntarily or by operation of law assign, transfer, license, or otherwise transfer all or any part of its right, duties, or other interest in the Agreement or the proceeds thereof (collectively, "Assignment"), without the other party's prior written consent, which consent shall not be unreasonably withheld or delayed. Any attempt to make an Assignment in violation of this provision shall be null and void. Purchaser and Provider shall provide written notice to the other of any change in ownership or control. Either party's failure to comply with the assignment provisions, as contained in this paragraph, shall give the other, at its sole discretion, the option to either accept the others assignee or terminate this Agreement. No assignment shall release the other of its obligations hereunder.

Notwithstanding anything to the contrary contained in the foregoing, Purchaser may assign this Agreement without Provider's consent to an entity which Purchaser controls, is controlled by, or under common control with, or to any entity, which acquires or succeeds to all or substantially all of the business or assets of Purchaser by consolidation or merger. This Agreement shall be binding on the parties and their respective permitted successors and assigns.

22. **Amendment:** This Agreement may not be amended, except by an instrument in writing executed by the parties. The acknowledgment or acceptance hereto shall effect no modification or amendment by either party of any Purchaser order, sales acknowledgment, or other similar form from the other party.

23. **Merger:** This Agreement (including its Exhibits) supersedes and merges all prior agreements, promises, understandings, statements, representations, warranties, indemnities, and covenants, and all inducements to the making of this Agreement relied upon by either party herein, whether written or oral, and embodies the parties' complete and entire agreement with respect to the subject matter hereof. No statement or agreement, oral or written, made before the execution of this Agreement, shall vary or modify the written terms hereof in any way whatsoever.

24. **Interpretation:** The words and phrases used herein shall have the meaning generally understood in the telecommunications industry. This Agreement shall be construed in accordance with its fair meaning and not for or against either party that may have drafted this Agreement

25. **Third Party Beneficiaries/Parties in Interest:** This Agreement has been made and is made solely for the benefit of the Provider and Purchaser, and their respective successors and permitted assigns. Nothing in this Agreement is intended to confer any rights/remedies under or by reason of this Agreement on any third party.

26. **Representation of Authority:** Each party represents and warrants to the other that the execution and delivery of this Agreement and the performance of such party's obligations hereunder have been duly authorized and that the Agreement is a valid and legal agreement binding on such parties and enforceable in accordance with its terms.

27. **Further Assurances:** The parties shall, at their own cost and expense, execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to carry out the intent and purposes of this Agreement.

28. **Governing Law:** This Agreement shall be in all respects, governed by and construed and enforced in accordance with the laws of the State of New York, including all matters of construction, validity, and performance.

29, **Counterparts:** This Agreement may be executed in several counterparts, each of which shall constitute an original, but all of which shall constitute one and the same instrument.

30. **Notices:** All notices, demands, requests and other communications required or permitted hereunder shall be in writing and shall be deemed to be delivered on the earlier of: (a) the date of actual receipt; (b) three days after the date of mailing by certified or registered mail, duly addressed and with proper pre-paid postage, with return receipt requested to the last known place of business of either Party; or (c) the day after being sent via a nationally recognized overnight courier service such as Federal Express. Notices will be delivered as follows:

Provider:	**Purchaser:**
420 Lexington Avenue, Suite 518	______________________________
New York, NY 10170	
Attn: Sales Dept.	Attn: _________________________
Phone: 212-972-2000	Phone: _______________________
Fax: 212-972-7884	Fax: _________________________

IN WITNESS HEREOF, the parties have executed this Agreement as of the day and year first written above.

Fusion Telecommunications International, Inc. T-Systems USA

By: /s/ **JOSEPH M. TROCHE**

Title: Senior VP Sales

By: /s/ **KEVIN B. MULHOLLAND**

Title: Senior Vice President