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

FORM 10K

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

For The Fiscal Year Ended December 31, 2007
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**
Common Stock, par value $0.01 per share	*American Stock Exchange*
Redeemable Common Stock Purchase Warrants	*American Stock Exchange*

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 as reported by the American Stock Exchange on March 24, 2008, was $9,982,003. 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 24, 2008, is as follows:

Title of Each Class	Number of Shares Outstanding
Common Stock, $0.01 par value	35,762,962

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. Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders to be held in 2008

2007 FUSION TELECOMMUNICATIONS INTERNATIONAL, INC,
ANNUAL REPORT ON FORM 10-K

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

TABLE OF CONTENTS

PART 1

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) provides voice services over the Internet (Voice over Internet Protocol or VoIP) to corporations, consumers and carriers worldwide, focusing on international calling.

Through our key assets of market knowledge, technical expertise and strategic relationships, we believe we are poised to:

- Capitalize upon the growth in VoIP telecommunications, a market that Booz Allen Hamilton expects to exceed the market for traditional circuit-switched telecommunications in 2011, and expand our international penetration of VoIP applications to consumers and corporations;

- Deliver customized VoIP services designed to meet the needs of the emerging markets and communities of interest worldwide;

- Deliver a complete suite of VoIP service offerings for corporations and consumers;

- Establish our company as a global telecommunications service provider;

- Continue to expand the number of partnerships globally to facilitate the distribution of our VoIP services; and

- Bridge the migration from traditional telephony to VoIP through the introduction of simple, easy to use services that can be accessed from a landline, PC or mobile phone.

We target markets that we believe have: (i) barriers to entry, (ii) substantial growth prospects, (iii) an increasing number of corporations operating within them, (iv) high cost of telecommunications services, and (v) a substantial quantity of voice and data traffic between the developed world (e.g., the United States and United Kingdom) and other countries within our target markets. In select emerging markets, we will deploy network facilities in order to connect that country to the United States.

We currently provide services to customers in over 100 countries. We believe that by using local partners in select markets, we can best distribute our services while providing a high level of local customer support.

SERVICES

To date, we derive a significant portion of our revenues primarily from U.S.-based carriers requiring VoIP connectivity to emerging markets. As we continue to execute our strategy, we anticipate a larger number of non-U.S. based customers. We are currently seeking to expand our retail VoIP revenue stream to consumers and corporations by focusing on providing our services in emerging markets, which to date, has not generated material revenues for us. We deliver our VoIP services directly to end-users and through partnerships with companies that distribute and support our services locally. We also deliver our services through joint ventures.

We have service contracts with our customers, including carriers, corporations and consumers. Our contracts with carriers typically have a one-year renewable term, with no minimum volume per month, and allow the customer to terminate without penalty. Our contracts with corporate customers are typically for a one-year term, and have an early cancellation penalty. For the years ended December 31, 2007, 2006, and 2005, the Telco Group accounted for 9.6%, 16.2% and 11.3%, respectively, of our total revenues. In addition, for the years ended December 31, 2007 and 2006, Qwest accounted for 40% and 23.2% of our total revenues, respectively.

Our voice services to carriers accounted for the majority of our revenues in 2007 and 2006. Our retail VoIP service enables customers, typically for a lower cost than traditional telephony, to place voice calls anywhere in the world using their personal computers, Internet protocol phones or regular telephones when accompanied by a hardware device. VoIP services utilize the Internet as opposed to circuit switching (traditional telephony technology), thereby offering cost savings to customers. These services are primarily offered under our retail brand Efonica directly to consumers, corporations, distribution partners, or Internet Service Providers around the world. In select cases, we will also provide co-branded and private label solutions. Our services are offered to customers located in Asia, the Middle East, Africa, and Latin America.

Additionally, we enter into interconnection agreements with telecommunications carriers worldwide. These agreements enable us to terminate traffic into a country and in some cases receive traffic from that country. We use the capacity obtained through these interconnection agreements to carry our own retail traffic in addition to selling capacity to other carriers desiring voice termination to those destinations. As we grow, we expect to use an increasing percentage of our capacity for higher margin retail traffic. We offer facility co-location services to other communication service providers, enabling them to co-locate their equipment within our facility, or lease a portion of our equipment. Often, we provide wholesale services to the parties who co-locate with us.

In the second quarter of 2007, we began marketing Corporate Retail Services within the United States. We now offer hosted IP-PBX services for those companies wishing to outsource the management of their telecommunications facilities. We also offer IP trunking solutions for companies wishing to retain their existing telecommunications infrastructures, but still reap the benefits of VoIP telephony. We also offer our corporate customers Internet access, toll free services, conference calling, and a premium version of our Mobilink service. On a selective basis, we offer corporate customers certain advanced solutions, including virtual private networks, private line services, and managed network services.

Our segments and their principal activities consist of the following:

VOICE SERVICES TO CARRIERS

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

CONSUMERS, CORPORATIONS AND OTHER

We provide VoIP services targeted to consumers and corporations. We offer services that permit our customers to originate calls via IP telephones or telephone systems and use the Internet to complete those calls to standard telephone lines anywhere in the world. We also provide PC-to-Phone services that allow consumers to use their personal computers to place calls to the telephone of the called party. For corporate customers, we offer fully hosted IP-PBX services, as well as IP trunking solutions and Internet access. In addition, we selectively offer point-to-point private lines, virtual private networking, and call center services to certain customers within our target markets.

GROWTH STRATEGY

STRATEGY

Our strategy is to provide a full suite of VoIP services to consumers and corporations in the emerging markets and to the international communities of interest around the world. We look to create local partnerships to facilitate distribution of our services within our target countries. We also look to create global partnerships to facilitate global distribution of our services.

The details of our strategy include:

Market Customized VoIP Calling Plans to Consumers and Corporations

Our key service offering is VoIP, which allows us to offer feature-rich, prepaid and monthly subscription Internet-based telephone services at competitive prices to any consumer or business with broadband or dial-up Internet access. Quality levels, which had once been a significant issue, are fast approaching those associated with traditional voice transmission. We typically market our VoIP services to corporations and consumers through an in-country distribution partner. Many of our target markets have different cultures, calling patterns, and payment options requirements. Our marketing strategy focuses on delivering customized VoIP calling plans, feature packages and payment option to meet the needs of the target market and communities of interest around the world. We intend to build upon our market position in the international VoIP business to selectively market our VoIP services to the enterprise market. We believe that the ability to deliver global Internet access and managed private networks and other Internet-based services to multinational businesses are important capabilities in allowing us to address this market segment.

Establish Local Partners for In-Country Distribution and Support

We believe that working with strong partners allows us to best distribute services and attract, retain and support customers. We seek to develop partnership arrangements in each of our markets. Local partners offer advantages since their existing infrastructure, sales distribution channels, and technical support can be utilized, while simultaneously reducing capital needed to enter the market. We seek to partner with companies that have access to a customer base, whether online or otherwise, such as Internet service providers, wireless Internet access providers, licensed carriers, online retailers, electronics outlets, and hardware manufacturers. We intend to work with our partners to enable them to distribute and support our products and services. In select cases, we offer a co-branded or private label option. Our private label alternative enables our partners to market our products, technology platform and global reach under their own brand. This alternative is ideal for partners that do not have the capital, expertise and technology platform required to deliver our services but want to build their own brand. Local partners also offer critical insights into the regulatory environment and are familiar with the specific cultural nuances of their region. Additionally, we anticipate that prior to the rollout of any new services, our partners will work with us in contributing market intelligence to ensure a successful introduction of new products.

Deploy a Carrier Grade Network Infrastructure

We have built a highly scalable network and back office infrastructure to deliver our services. We utilize the latest Softswitch technology for routing VoIP and TDM calls to off-net customers.
We are developing and deploying back-office systems and service platforms that will enable us to offer our customers a wide array of services and features, including comprehensive feature packages, pre-paid subscription-based calling plans, and free on-net calling. The development of this extensive scalable back office will also serve to reduce our dependence on other communication carriers. We believe our focus on being a carrier grade VoIP service provider enables us to deliver the quality of service required by our customers.

Develop International Interconnections to Carriers

We seek to enter into relationships with in-country carriers to transport voice traffic to and/or from that country. We believe that we have established our presence in the voice markets due to (i) direct interconnections to postal telephone and telegraph companies and other licensed carriers, which typically provide higher quality transmission than the services offered by "gray market" operators, and (ii) competitive pricing. We believe that carriers seeking to access these markets will increasingly want to work with companies that have established relationships with postal telephone and telegraph companies and other licensed carriers, as opposed to quasi-legal operators who divert long distance traffic and revenue from those carriers. We believe gray market operators generally provide poorer quality and reliability. In several markets, we receive inbound traffic from the postal telephone and telegraph company and other licensed carriers that tend to produce higher margins than our outbound carrier voice services. We believe this inbound traffic from postal telephone and telegraph companies and other licensed carriers, strengthens our ability to ensure favorable contractual arrangements. We will use capacity on our international voice networks to carry our own retail traffic in addition to selling capacity to other carriers desiring termination to those specific destinations. Although there are significant peaks and valleys in the carrier revenue stream, we believe it is important to our success in the retail market to keep our cost basis low and our quality high. As we progress in the execution of our business plan, we intend to use a greater percentage of our network capacity to carry higher margin retail traffic.

Exploit Communication Patterns Among and Between our Markets

We look to provide connectivity to emerging markets. We seek to create international interconnections with global carriers to carry our international traffic. We are targeting customers in synergistic markets to leverage the communities of interest by providing customized calling and feature service plans designed to meet the needs of ethnic communities around the world. Our regional marketing plan is focused on the emerging market communities of interest around the world. We are also seeing demand from business customers for multi-country connectivity such as a U.S. corporation seeking connectivity to India, China, and the Philippines from one provider. We also believe that traffic among emerging markets is less susceptible to price and margin erosion than traffic among developed countries.

Marketing

Our VoIP marketing strategy focuses on delivering customized calling plans, feature packages and payment options to meet the needs of emerging markets and ethnic communities around the world. Our VoIP service works with a broadband or a dial-up connection to the Internet; a capability that we believe has been ignored by many VoIP service providers. We believe this service delivery flexibility is very important, since approximately 70% of the world's Internet users still connect through dial-up.

We market VoIP services to consumers, corporations, Internet Service Providers and carriers through direct sales or distribution partners. Internet access and private network solutions are marketed through direct and alternate distribution channels.

We market our services via a variety of distribution channels, including:

Direct Sales and Regional Management

We have a direct sales force that sells our products and services to corporations and carriers. We also have regional sales management that focuses on Latin America, Asia, Africa, the Middle East and the Caribbean. The regional executives manage and grow existing revenue streams from partners and defined strategic accounts, identify and develop new partnerships, develop strategies for market penetration, identify new market opportunities, and coordinate internal support activities.

Agents

We use independent sales agents to sell our services. Our sales agents are compensated on a commission-based structure. We typically control the product, pricing, branding, technical and secondary level customer support, billing and collections. In select instances we will provide Private Label services.

Partnerships

We seek to develop partnership arrangements in each of our markets with companies that are able to distribute and support our services. These partners can be ISPs, retail store chains, carriers, cable operators and other distribution companies. In addition to local distribution and support, our partners may provide or arrange for last mile connectivity required for the delivery of local Internet access and private networks. We also focus on the development of global partnerships that have multi-country distribution capabilities.

Strategic Ventures

We enter into agreements with other companies to market and distribute each other's products and services to the customer and prospect base of the other. The providing party usually will support and bill its own products. Depending on the strategic venture, we may pay or receive a commission or share revenue and/or profits with each other.

Efonica

In December 2002, the Company acquired a 50.2% equity interest in a joint venture with Karamco, Inc. ("Karamco") to provide various VoIP services throughout the emerging markets. Efonica F-Z. LLC, the joint venture company, was incorporated in the Technology, Electronic Commerce and Media Free Zone in Dubai, United Arab Emirates, and operations of the joint venture began during 2003.

In January 2005, we entered into an agreement to acquire the remaining 49.8% minority interest in Efonica from Karamco, Inc., which was contingent upon the successful completion of our initial public offering by March 1, 2005. As our IPO was completed by this date, the Efonica transaction closed on February 18, 2005. The purchase price was $9,785,700 representing Karamco's portion of Efonica's debt owed to us as of the closing date and the $500,000, which was paid in cash in February 2005 to Karamco with the balance paid in shares of common stock. The number of shares issued to Karamco was determined by the $6.45 per share initial price of the common stock at the date of the IPO.

Approximately $4.4 million worth of such common stock (675,581 shares) issued to Karamco was being held in escrow (the "Escrow Shares"). In March 2006, the Escrow Shares were released to Karamco subject to a lock-up period until February 15, 2007.

Of the shares issued to Karamco, the Company agreed to register for resale 150,000 shares of common stock in a registration statement. Karamco was restricted from selling in excess of $1 million worth of common stock during the one-year period following the Company's IPO Prospectus Date. If the sale of the 150,000 shares registered results in less than $1 million of gross proceeds, the Company is required to pay Karamco the difference between the aggregate gross proceeds of Karamco's sale of the registered shares and $1 million (the "Difference Payment"). Through December 31, 2006, the Company had paid Karamco $430,000 towards the Difference Payment which is reflected as capital in excess of par value in the consolidated financial statements. The remainder of the Difference Payment was paid on May 9, 2007 in the amount of $171,852.

Efonica F-Z, LLC is presently integrated with the rest of our organization and Efonica is presently serving as our consumer services brand.

Joint Ventures and Strategic Partners

We enter into formal joint venture agreements and strategic partnerships with certain partners to market and provide our services.

The terms of each non-joint venture partnership or distribution agreement are different by partner but in general provide for a revenue or profit sharing arrangement.

Jordan

In March 2007, the Company entered into an exclusive partnership agreement with a licensed service provider to begin offering its Efonica services in Jordan. In July 2007, the Company launched its Mobilink service in Jordan, the first of several planned service offerings in that country. Since the launch, capacity has been expanded to accommodate growing customer demand in a country that has seen nearly 400% growth in internet users during the past few years, and represents a strong market opportunity for Fusion.

Dominican Republic

On September 24, 2007, the Company acquired a license to sell communication services in the Dominican Republic. The Company plans to provide a comprehensive suite of advanced voice, data, and video products to consumers and businesses.

DigitalFX International, Inc.

In May 2007, the Company secured a strategic investment from DigitalFX International, Inc. ("DigitalFX"). DigitalFX is a leading video and content management company that combines cutting edge communications and storage tools into one versatile, easy to use digital platform. The Company plans to combine Fusion's consumer and corporate VoIP solutions with Digital's streaming video and content management capabilities and offer an integrated package to Fusion's and DigitalFX's existing and future customers.

Network Strategy

Our network strategy incorporates a packet switched platform capable of interfacing with Internet protocols and other platforms including Time Division Multiplexing ("TDM"). This is key to providing the flexibility needed to accommodate the many protocols used to transport voice and data today. We continually evaluate, and where appropriate, deploy additional communications technologies such as Multi-Protocol Label Switching ("MPLS") and Any Transport over MPLS ("ATOM"), which handle information transport in a more efficient fashion than other earlier technologies such as frame relay and ATM.

The core of our network design is a packet-based switching system that accommodates VoIP and traditional voice, Internet, data and video services. Packet-based networking is considerably more efficient than circuit-switched systems because it can disperse packets (information) in many directions and then reassemble them at the destination. This makes much more efficient use of available facilities when compared to circuit-based systems. We believe that this design offers an extensible platform to support envisioned growth. The network design is intended to embrace emerging technologies as they become available. The network architecture is highly distributable and supports geographical expansion outside of the United States and, if necessary, can deliver packet technology to every part of the network.

We are currently using a Veraz "Softswitch", Cisco and Nuera Orca media gateways, and carrier class Cisco routers and switches on a fiber-based gigabit Ethernet backbone to transport voice and data traffic. Softswitch is a generic term that refers to a new generation of telecommunications switching equipment that is entirely computerized and based on software processes that execute entirely on off-the-shelf servers. This provides us with call control and routing capabilities to further enhance service and performance available to our clients.

We have deployed back-office systems and services platforms that will enable us to offer our customers a wide-array of VoIP services and features, including subscription-based calling plans, free on-net calling, advanced feature packages, conferencing, and unified messaging. This development of an extensive scalable back-office will also serve to reduce our dependence on other communication carriers.

Benefits of the Fusion Distributed Network Architecture

Historically, most large international communications networks required investment and implementation of self-contained switching hardware that, in turn, could then be connected with other comparable equipment nodes via leased lines or other forms of networking. Examples of these would include equipment such as large traditional carrier switching equipment. All of the intelligence and functionality had to be replicated in each major location.

We, however, have implemented an environment that we believe is far more flexible, adaptable, and less costly than the legacy systems in use by some of our competition. Our Softswitch environment permits us to centrally control our network and service offerings from one location yet deploy gateways that interface with customers and vendors in remote locations. Each remote gateway is able to deliver our service suite even though the intelligence is centrally located in our New York facility. Instead of needing duplicative and expensive infrastructure in every location, we economize by allowing multiple disparate network equipment to be centrally managed. We believe that we can capitalize on market opportunities that would previously have been unadvisable due to the expense of deployment and associated marketplace risks.

Capacity

In traditional telecommunications systems, capacity is a function of equipment and software. Because of its modular architecture, Softswitch capacity is much less dependent on hardware. We believe that our Softswitch environment will enable us to expand our capacity to handle traffic and our geographic reach with greater ease in the future.

Ease of Modular Service Creation

Traditional telecommunications switching systems are not easily modified to incorporate new features and functionality. Because our Softswitch environment is entirely computer driven, our systems are flexible and designed for the addition of features. We intend to expand our service offerings by integrating additional hardware and software systems.

Our distributed architecture and flexible technology platform allows us to roll out new services in a shorter period of time than many traditional telecommunication companies.

Ease of Deployment

As we continue to penetrate emerging retail markets, or as we establish interconnect agreements with additional foreign carriers, we will seek to establish regional points of presence that are connected back to our New York switching center. These regional points of presence will enable our VoIP services to be offered and delivered from remote locations, while the network intelligence and management of the services reside in our New York facility. This modular approach will also allow us to quickly respond to new market opportunities and deploy our new services rapidly.

Competition

The international telecommunications 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, data and communications services are, in some circumstances, consolidating. We believe that service providers 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, we have seen carriers competing on their ability to carry VoIP. As technology evolves and legacy systems become an encumbrance, we expect carriers to compete on the basis of technological agility, their ability to adapt to, and adopt, new technologies.

In the area of VoIP we compete with companies such as Vonage, 8X8, Deltathree, Net2Phone, Skype and Mediaring. This business segment is marketing-intensive and does not have high barriers to entry. While we believe our distribution relationships and marketing skills provide us with a competitive advantage, our competitors generally have more resources and more widely recognized brand names.

We compete with several emerging international carriers, many of whom are in or entering the VoIP market, among which are Primus Telecommunications Group, VSNL, and IDT Corporation. We also compete with non-U.S. based emerging carriers. For example, in India, we compete with Bharti Tele-Ventures, Reliance Telecom and Data Access, all of which are larger, better capitalized and have broader name recognition than Fusion. Many of these competitors are becoming increasingly focused on emerging markets, as they seek to find higher margin opportunities. Many of these carriers are also focused on voice carriage, but may become increasingly focused on providing private networks and other Internet protocol services.

We also compete within the “Free Service” segment of the VoIP market, which is also a rapidly growing market segment. The current market leader in this segment is Skype. Other major players moving into this segment include Yahoo, Google, and MSN. Each of these companies offers an instant messenger (IM) service that incorporates the ability to make free computer-to-computer voice calls between registered users. By comparison, we are targeting individuals who are more focused on telephony applications than enhanced IM applications, and will offer the ability to make calls between any combination of computer, IP phones, and analog phones connected to an ATA device. In fact, there is no need to have a computer turned on, or even own a computer, to use our free service. We believe that this service will not only generate significant interest among users, but that it will also generate customers interested in upgrading to enhanced capabilities (e.g. voice mail or off-net calling) or to our subscription service offerings.

In each country where we operate, there are numerous competitors, including VoIP service providers, wireline, wireless, and cable competitors. We believe that as international telecommunications markets continue to deregulate, competition in these markets will increase, similar to the competitive environment that has developed in the United States following the AT&T divestiture in 1984 and the Telecommunications Act of 1996. Prices for long distance voice calls in the markets in which we compete have been declining and are likely to continue to decrease. In addition, many of our competitors are significantly larger, control larger networks, and have substantially greater financial, technical and marketing resources.

We compete with business-oriented Internet access providers, including AT&T, Verizon, Qwest, and Cable & Wireless. These providers may offer both wholesale and retail Internet connectivity and are considerably larger than us and have greater brand recognition.

We have been unable to identify any direct and comprehensive competitors that deliver the same suite of services to the same markets with the same marketing strategy as we do. We compete with many different providers in various aspects of our Business Plan, but have found none that directly offer the same breadth of services focused on emerging markets. Some of our competitive advantages include:

- A full suite of services that complement our VoIP service offerings as opposed to a single offering;
- The ability to offer prepaid, monthly recurring service plans and free service to customers using broadband or dial-up Internet access;
- Connectivity with over 200 carriers worldwide;
- A bundled product offering VoIP service and Internet access to corporate users;
- Our focus on emerging markets in Latin America, Asia, the Middle East, Africa, and the Caribbean;
- the ability to make calls between any combination of computers, Internet connected telephones, wireless devices, and other SIP-enabled hardware;
- an international partnership and distribution model, which provides for faster service deployment, reduced capital requirements and cost-efficient service delivery; and
- a strategy of using local partners to enable us to access new markets, secure or obtain communication licenses, enhance distribution and provide local customer support.

At this time, we are unable to provide quantified disclosure regarding our market share in the markets in which we operate. As is common with emerging markets, the aggregate market for our products and services is usually not known until feasibility studies containing a wide range of demographic variables are conducted. We are not aware of any studies that presently exist which provide sufficient data for us to determine our market share.

Government Regulation

Generally, in the United States, we are subject to varying degrees of federal, state and local regulation and licensing, including that of the Federal Communications Commission. Internationally we also encounter similar regulations from foreign governments and their telecommunications/regulatory agencies. At each of these levels, there are significant regulations, fees and taxes imposed on the provision of telecommunications services.

We cannot assure that the applicable U.S. and foreign regulatory agencies will grant required authority or refrain from taking action against us if we are found to have provided services without obtaining the necessary authorizations or pursuant to applicable regulations. If authority is not obtained or if our pricing, and/or terms or conditions of service, or required filings are not filed, or are not updated, or otherwise do not fully comply with the rules of these agencies, third parties or regulators could challenge these actions and we could be subject to forfeiture of our license, penalties, fines, fees and/or costs.

The U.S. Federal Government and state authorities have the power to revoke our regulatory approval to operate internationally, interstate, or intrastate, or to impose financial penalties, statutory interest and require us to pay back taxes or fees if we fail to pay, or are delinquent in paying, telecommunications taxes or regulatory fees or fail to file necessary tariffs or mandatory reports. We have been delinquent in such financial, filing and reporting obligations and required filings in the past including, but not limited to, Federal Communications Commission and Universal Service Fund reports and payments.

During July 2004, the United States Senate continued to consider how it might apply regulations to VoIP. The VoIP Regulatory Freedom Act of 2004 exempts VoIP service from state taxes and regulations and defines it as a lightly regulated information service for U.S. government regulators. This does not, however, remove the uncertainty of regulatory impact within the United States. For example, the bill reserves the ability for states to require VoIP to provide 911 services, to require VoIP providers to contribute to state universal service programs, and to pay intrastate access charges to other telecom providers.

On April 24, 2004, the FCC rendered a decision on the AT&T Petition for Declaratory Ruling (WC Docket No. 02-361) pending before them. The FCC determined that where 1+ calls were made from regular telephones, converted into an Internet protocol format, transported over the AT&T Internet backbone, and then converted back from IP format and delivered to the called party through the local exchange carriers' local business lines (not Feature Group D trunks), the service was a "telecommunications service" for which terminating access charges were due the local exchange carrier. In its decision, the Commission stated that, under the current rules, the service provided by AT&T is a "telecommunications service" upon which interstate access charges may be assessed against AT&T. 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, the calls originated and terminated on the public switched telephone network, and the calls underwent no net protocol conversion and provided no enhanced functionality to the end user due to the provider's use of Internet protocol technology. In fact, in the AT&T case the customer was completely unaware of AT&T's use of IP technology in transporting the call.

Although the FCC determined the services provided by AT&T to be a telecommunications service subject to interstate access charges rather than information services not subject to such charges, they did not make a determination regarding the regulatory status of phone-to-phone VoIP or its exposure to Universal Service Fund (USF), 911, Communications Assistance for Law Enforcement Act (CALEA) or any other public policy issues. The FCC further qualified the decision by stating that they "in no way intend to preclude the Commission from adopting a different approach when it resolves the IP-Enabled Services rulemaking proceeding or the Intercarrier Compensation rule making proceeding." (Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Notice of Proposed Rulemaking, 16 FCC Rcd 9610 (2001) (Intercarrier Compensation)).

In June 2005, the FCC imposed 911 obligations on providers of "interconnected" VoIP services.

In addition, the FCC requires interconnected VoIP providers to register with the FCC, comply with the Communications Assistance for Law Enforcement Act of 1994 (CALEA) and to contribute to the Universal Service Fund.

We do not believe that we are an "interconnected" VoIP service provider under the FCC definition and, therefore, do not fall under the regulatory requirements set forth above. If the FCC determines we are an "interconnected" VoIP service provider and have not registered as such, or are not compliant under the regulations, third parties or regulators could challenge these actions and we could be subject to penalties, fines, fees and/or costs. In addition, emerging technology could cause us to change our product and service configuration or the FCC definition could be changed, and we may become an "interconnected" VoIP provider under the FCC definition in the future. Should this occur, we will be required to comply with the regulations set forth above.

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 forums to research the issues surrounding VoIP. Some are encouraging or even requesting that VoIP providers subject themselves to public service commission jurisdiction and obtain certification as telephone companies. Most are hesitant to act until a final determination is made by the FCC, but some have voluntarily done so.

We believe VoIP may be subject to additional regulation in the future, it is uncertain when or how the effects of such regulation would affect us, nor is it understood if other countries will seek to follow suit. If additional regulation does occur, the FCC, any state or any country may impose surcharges, taxes or additional regulations upon providers of VoIP. The imposition of any such additional fees, charges, taxes and regulations on Internet protocol service providers could materially increase our costs and may limit or eliminate the competitive pricing we currently enjoy.

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 Telecommunications International
- Diamond / Block Logo
- Diamond Logo
- Fusion
- Fusion Telecom
- efonica (logo)
- Efonica

The following trademarks and service marks are filed with the United States Patent Trademark Office and are currently in registration process:

- Fusion (logo)
- Hear the Difference
- Efo in
- Efonicall
- Efo out
- Worldwide Internet Area Code
- Internet Area Code
- Fusion Softphone
- Efonica Softphone
- Callgate
- Enumber
- Ecash
- Fusion Tel
- Enumber
- Estore

The following trademark applications were abandoned by the company because it was no longer used in commerce.

- FTI
- Efocash
- Efostore
- Efofax
- Efobridge
- Efolink
- Efogate
- Efonicash
- Efonifax
- Efonica (softphone design)
- The Area Code of the Internet
- Efo
- IC (design only 2 squares)
- Freefonica
- Internet Phone Number
- Invite a Friend
- Efonica Software
- LL
- Members Area

The telecommunications and VoIP markets have 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 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 and a loss of established brand recognition. Recently, a competitor of ours, Vonage, was sued by Verizon, for a violation of a number of VoIP related patents. Verizon was awarded substantial monetary damages.

Employees

As of December 31, 2007, we had 68 full time employees in Fusion Telecommunications International, Inc., and none of our employees are represented by a labor union. We consider our employee relations to be good, and we have never experienced a work stoppage.

Confidentiality Agreements

All our 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, 2007 and 2006, 91.1% and 90.4%, respectively, of our revenue was derived from customers in the United States and 8.9% and 9.6%, respectively, from international customers. As of December 31, 2007 and 2006, 2.0% of our long-lived assets were located outside of the United States. For more information concerning our geographic concentration, see Note 18 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Available Information

We are subject to the informational requirements of the Securities Exchange Commission and in accordance with those requirements file reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy the reports, proxy statements and other information that we file with the Commission under the informational requirements of the Securities Exchange Act at the Commission’s Public Reference Room at 450 Fifth Street N.W., Washington, DC 20549. Please call 1-800-SEC-0339 for information about the Commission’s Public Reference Room. The Commission also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The address of the commission’s web site is http://www.sec.gov. Our web site is http://www.fusiontel.com. We make available through our web site, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q. Current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Commission. Information contained on our web site is not a part of this report.

Item 1A. Risk Factors

The discussion in this annual report regarding our business and operations includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1996. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as “may,” “expect,” “anticipate,” “intend,” “estimate” or “continue” or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. This disclosure highlights some of the important risks regarding our business. The number one risk of the Company is its ability to attract fresh and continued capital to execute its comprehensive business strategy. In addition, the risks included should not be assumed to be the only things that could affect future performance. Additional risks and uncertainties include the potential loss of contractual relationships, changes in the reimbursement rates for those services as well as uncertainty about the ability to collect the appropriate fees for services provided by us. Also, the Company faces challenges in technology development and use. We may also be subject to disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

Risks Related to Business

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

There can be no assurance that any of our business strategies will be successful or that we will ever achieve profitability. At December 31, 2007, we had a working capital deficit of approximately ($4.2) million and stockholders' equity of approximately $6.7 million. We have continued to sustain losses from operations and for the years ended December 31, 2007, 2006 and 2005, we have incurred a net loss applicable to common stockholders of approximately $13.2 million, $13.4 million and $9.4 million, respectively. In addition, we have not generated positive cash flow from operations for the years ended December 31, 2007, 2006 and 2005. We may not be able to generate future profits and may not be able to support our operations, or otherwise establish a return on invested capital. In addition, we may not have sufficient funds to execute our business strategy, requiring us to raise funds from capital markets, consequently, diluting our common stock.

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

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

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

Our purchase of network equipment and software will be based in part on our expectations concerning future revenue growth and market developments. As we expand our network, we will be required to make significant capital expenditures, including the purchase of additional network equipment and software, and to add additional employees. To a lesser extent our fixed costs will also increase from the ownership and maintenance of a greater amount of network equipment including our Softswitch, gateways, routers, satellite equipment, 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.

We are pursuing new lines of business, and introducing new services. In some cases, the technology for these services and/or the market for those services are untested. There can be no assurance of our ability to introduce future services on a timely basis or our ability to derive significant revenues from them.

Our ability to deploy new products and services may be hampered by technical and operational issues which could delay our ability to derive profitable revenue from these service offerings. Additionally, our ability to market these services may prove more difficult than anticipated, including factors such as our ability to competitively price such services. There can be no assurance that we will be able to introduce our planned future services, or that we will be able to derive significant revenue from them.

Our new services are dependent upon multiple service platforms, network elements, and back-office systems, as well as the successful integration of these items. There can be no assurance of the success of this development and integration.

We have completed the initial infrastructure build out of our major network elements and are currently integrating and testing our new services. We cannot ensure that these services will perform as expected. Our ability to effectuate our business plan is dependent on the successful rollout of our services.

We are also developing and deploying back-office systems and services platforms that will enable us to offer our customers a wide-array of new services and features including subscription-based calling plans, conferencing, and unified messaging. There can be no assurance that these developmental efforts will be completed on time or produce the desire results.

There can be no assurance that the planned migration of existing VoIP service customers onto our new infrastructure will be successful.

We will be moving existing VoIP service customers onto our new infrastructure. We cannot ensure that we will be successful in moving these customers to the new infrastructure. The failure to successfully transition these customers onto our new infrastructure could result in the loss of those existing customers and negatively impact our ability to acquire new customers.

If our information and processing systems for billing and client service are not properly implemented, it could harm our ability to bill and provide services effectively.

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. Our plans for the development and implementation of these systems rely, for the most part, on having the capital to purchase and maintain required software, choosing products and services offered by third party vendors, and integrating such products and services with existing systems. We also may require customized systems in order to meet our requirements, which may delay implementation and increase expenses. These systems must also integrate with our network infrastructure. In the event that these systems do not integrate with our network infrastructure, our ability to manage our operational or financial systems will be inhibited. We cannot ensure that they will be implemented at all, or that, once implemented, they will perform a s expected. Furthermore, our right to use some of these systems is 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 current litigation regarding patent infringement.

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

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

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

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

Our ability to grow through quick and cost effective deployment of our VoIP services is dependent upon our ability to identify and contract with local entities that will assist in the distribution of our products. This will include local sales agents that sell our retail, Efonica-branded services, resellers that private label and sell our wholesale VoIP services, and referral entities such as web portals that refer potential customers to us. If we are unable to identify or contract for such distribution relationships, we may not generate the customers or revenues currently envisioned.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The success of our business depends on the acceptance of the Internet in emerging markets that may be slowed by limited bandwidth, high bandwidth costs, and other technical obstacles.

The ratio of telephone lines per population, or teledensity, in most emerging countries is low when compared to developed countries. Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains very expensive in these regions, especially when compared to bandwidth costs in the United States. Prices for bandwidth capacity are generally set by the government or incumbent telephone company and remain high due to capacity constraints among other things. While this trend tends to diminish as competitors roll out new bypass services, these rollouts may be slow to occur. Further, constraints in network architecture limit Internet connection speeds on conventional dial-up telephone lines, and are significantly less than the up to 1.5 megabits per second connection speed on direct satellite link or digital subscriber lines and cable modems in the United States. These speed and cost constraints may severely limit the quality and desirability of using the Internet in emerging countries and can be an obstacle to us entering emerging markets.

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

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

We are subject to varying degrees of international, federal, state, and local regulation. Significant regulations imposed at each of these levels govern the provision of some or all of our services and affect our business. We cannot assure you that our joint venture partners, or we have, or, will receive the international, United States Federal Communications Commission (“FCC”), or state regulatory approvals they or we require. Nor can we provide you with any assurance that international, FCC or state regulatory authorities will not raise material issues with respect to our compliance with applicable regulations or that the cost of our compliance will not have a materially adverse effect on our revenues and profitability.

We do not believe that we are an “interconnected” VoIP service provider under the FCC definition and, therefore, do not fall under the regulatory requirements set forth above. If the FCC determines we are an “interconnected” VoIP service provider and have not registered as such, or are not compliant under the regulations, third parties or regulators could challenge these actions and we could be subject to penalties, fines, fees and/or costs. In addition, emerging technology could cause us to change our product and service configuration or the FCC definition could be changed, and we may become an “interconnected” VoIP provider under the FCC definition in the future. Should this occur, we will be required to comply with the regulations set forth above.

The U.S. Federal Government and state authorities have the power to revoke our regulatory approval to operate internationally, interstate, or intrastate, or to impose financial penalties if we fail to pay, or are delinquent in paying, telecommunications taxes or regulatory fees or fail to file necessary tariffs or mandatory reports. We are currently, and have been, delinquent in such financial obligations and required filings in the past. Furthermore, delays in receiving required regulatory approvals or the enactment of new and adverse legislation, regulations or regulatory requirements could also have a materially adverse affect on our condition. In addition, future legislative, judicial and regulatory agency actions could alter competitive conditions in the markets in which we intend to operate, to our detriment.

We cannot assure that the applicable U.S. and foreign regulatory agencies will grant required authority or refrain from taking action against us if we are found to have provided services without obtaining the necessary authorizations or pursuant to applicable regulations. If authority is not obtained or if our pricing, and/or terms or conditions of service, or required filings are not filed, or are not updated, or otherwise do not fully comply with the rules of these agencies, third parties or regulators could challenge these actions and we could be subject to forfeiture of our license, penalties, fines, fees and/or costs.

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.

Risks Related to our Common Stock

Voting Control by Principal Stockholders

As of March 31, 2008, our executive officers and directors collectively control approximately 18.9% of our outstanding common stock and, therefore are able to significantly influence the vote on matters requiring stockholder approval, including the election of directors.

We Do Not Intend to Pay Dividends on Common Stock.

We have never declared or paid any cash dividends on our common stock. We intend to retain any future earnings to finance our operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future.

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 our leased offices and space as of March 31, 2008.

LOCATION	LEASE EXPIRATION	ANNUAL RENT			PURPOSE	APPROX. SQ. FT
420 Lexington Avenue, Suite 1718 New York, New York 10170	October 2015	$	452,000	1	Lease of principal executive offices	9,000
75 Broad Street New York, New York 10007	March 2010	$	658,000	2	Lease of network facilities	15,000
1475 W. Cypress Creek Road Suite 204 Fort Lauderdale, Florida 33309	May 2014	$	174,000	3	Lease of network facilities and office space	13,100
Premises GO2- GO3 Building No. 9 Dubai Internet City Dubai, United Arab Emirates	December 2008	$	87,000		Lease of office space	1,300

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

Item 3. Legal Proceedings

On May 28, 2003, Jack Grynberg, et al., an investor in one of the Company's private offerings, filed a complaint with the Denver District Court, State of Colorado (Jack Grynberg, et al v. Fusion Telecommunications International, Inc., et al, 03-CV-3912) seeking damages in the amount of $400,000 for the purchase of an interest in Fusion's 1999 private placement offering of subordinated convertible notes through Joseph Stevens & Company, Inc., a registered broker dealer. This complaint asserted the following claims for relief against the Company: Breach of Fiduciary Duty, Civil Theft, Deceptive Trade Practices, Negligent Misrepresentation, Deceit Based on Fraud, Conversion, Exemplary Damages and Prejudgment Interest. On June 25, 2004, the Company filed with the Court a Motion to Dismiss, which was granted. The Company was awarded attorneys' fees by the court. A written order of Judgment in favor of the Company and against the plaintiff in the amount of approximately $40,000 was recorded on January 24, 2006. The plaintiffs have filed an appeal of the motion, which the courts dismissed and awarded the Company attorney fees.

[1] This lease is subject to gradual increase to $509,000 from years 2008 to 2015.

[2] This lease is subject to gradual increase to $673,000 from years 2008 to 2010.

[3] This lease is subject to gradual increase to $215,000 from years 2008 to 2014.

On March 30, 2006, a financing company affiliated with an equipment vendor filed a complaint with the Circuit Court in Broward County, State of Florida seeking damages in the amount of approximately $1,380,000 allegedly due on two promissory notes plus accrued interest through March 1, 2006 and attorney's fees and costs. The Company asserted a counterclaim against the vendor which was settled March 2007, resulting in the amendment of an existing contract with the vendor. On November 2, 2007, the Company entered into a settlement agreement with the financing company for $540,000 payable within 30 days from the date of the settlement agreement. As a result of the settlement agreement, the Company recorded a gain on settlement of approximately $619,000.

On or about February 9, 2007, the Company filed a complaint against Patrick S. Dallas, InfoTel Holdings, Ltd., Phil Walton and John Does 1-5 in the Supreme Court of the State of New York (Fusion Telecommunications International, Inc. vs. Patrick S. Dallas, et al., Index No. 2007001836) seeking damages associated with Mr. Dallas' sale of Convergent Technologies Ltd. Stock to us and InfoTel's breach of its October 2006 agreement to purchase Fusion Jamaica Limited's equipment in Jamaica and assume the real property lease in Jamaica. The Company believes Mr. Dallas owns or controls InfoTel. This complaint asserted the following claims for relief: Breach of Contract (the Stock Purchase Agreement); Breach of Mr. Dallas' Employment Agreement; Breach of Mr. Dallas' Non-Solicitation and Non-Compete Agreement; Breach of Contract (the InfoTel Agreement); Diversion and Waste of Corporate Assets; Conversion: Scheme to Defraud and Deceive and Demand for Accounting; Fraudulent Misconduct with Intent to Defraud (the Stock Purchase Agreement); Fraudulent Misconduct with Intent to Defraud (the InfoTel Agreement); Indemnification (the Stock Purchase Agreement); and Indemnification (the InfoTel Agreement). The Company's legal counsel has advised that, at this state, they cannot accurately predict the likelihood of an unfavorable outcome, or quantify the amount or range of damages the Company would be entitled to receive if the Company was to prevail.

The Company is currently undergoing an audit by a regulatory agency, which has not yet been concluded. Should the audit result in an unfavorable outcome, the Company estimates that the liability would be within the range of $14,000 to $100,000. However, the liability range is just an estimate and could differ from the actual result.

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

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

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

There were no matters submitted to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 2007.

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 American Stock Exchange under the symbol "FSN", and our redeemable common stock purchase warrants are listed on the American Stock Exchange under the symbol "FSN.WS".

Prior to February 15, 2005, there was no established trading market for our common stock and redeemable common stock warrants. The following tables list the high and low sales prices for our common stock and redeemable common stock warrants for each fiscal quarter during the two preceding fiscal years.

Common Stock

Year Ended December 31, 2007	High	Low
First Quarter	$ 1.29	$ 0.55
Second Quarter	$ 0.80	$ 0.49
Third Quarter	$ 0.98	$ 0.29
Fourth Quarter	$ 0.82	$ 0.14

Year Ended December 31, 2006	High	Low
First Quarter	$ 3.40	$ 2.45
Second Quarter	$ 3.47	$ 1.99
Third Quarter	$ 2.52	$ 1.45
Fourth Quarter	$ 1.90	$ 1.01

Redeemable Common Stock Purchase Warrants

Year Ended December 31, 2007	High	Low
First Quarter	$ 0.14	$ 0.01
Second Quarter	$ 0.07	$ 0.02
Third Quarter	$ 0.06	$ 0.01
Fourth Quarter	$ 0.04	$ 0.01

Year Ended December 31, 2006	High	Low
First Quarter	$ 0.65	$ 0.30
Second Quarter	$ 0.50	$ 0.22
Third Quarter	$ 0.41	$ 0.16
Fourth Quarter	$ 0.35	$ 0.07

On March 24, 2008, the last reported sale price for our common stock on the American Stock Exchange was $0.34 per share and the last reported sale price for our redeemable common stock purchase warrants was $0.01 per warrant. The market price for our stock and warrants is highly volatile and fluctuates in response to a wide variety of factors.

Holders

As of March 24, 2008, we had approximately 1,633 holders of record of our common stock and 1,132 holders of record of our redeemable common stock purchase warrants.

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. 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 our Series A-1, A-2, A-3 and A-4 Preferred Stock are entitled to receive cumulative dividends of 8% per annum payable in arrears, when as declared by the Company's Board of Directors, on January 1 of each year, commencing on January 1, 2008.

Issuer Purchases of Equity Securities

There have been no purchases of equity securities by the Company required to be disclosed herein.

Recent Sales of Unregistered Securities

During the second quarter ended June 30, 2007, the Company completed the second phase and over-allotment of the private placement. During the second phase, the Company issued 3,375 shares of Preferred Stock, Series A-2 for net proceeds of approximately $3.375 million. In addition, the Company issued warrants to purchase 2,033,151 shares of common stock exercisable at $0.83 per share. The Company received an additional $0.745 million towards the over-allotment and issued 700 shares of Preferred Stock, Series A-3 and Series A-4 shares of Preferred Stock, Series A-3 and Series A-4 Warrants to purchase 421,687 and 28,482 shares of common stock at a fixed exercise price of $0.83.and $0.79, respectively.

Also, during November 2007, the Company commenced a private placement for the purpose of raising working capital for the Company's operations. The private placement provided for the sale of up to $7 million of the Company's common stock. The Company issued 2,936,321 shares of common stock for which proceeds of approximately $1.46 million were received, net of expenses of approximately $16,000. In addition, the Company issued warrants to purchase 1,468,161 shares of common stock exercisable at 120% of the closing price of the Company's common stock the day before closing. Also, the warrants have a term of 5 years from the date of closing.

Equity Compensation Plans

The following table provides certain aggregate information with respect to all of our equity compensation plans in effect for year ended December 31, 2007:

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
Equity compensation plans approved by security holders	3,116,676	$ 2.43	3,883,324
Total	3,116,676	$ 2.43	3,883,324

Item 6. Selected Financial Data

The following table sets forth selected historical financial data as of and for each of the periods ended December 31, 2007, 2006, 2005, 2004 and 2003. The selected financial data are derived from the audited consolidated financial statements of Fusion Telecommunications International, Inc. The consolidated financial statements, and the report thereon, as of December 31, 2007 and 2006, and for the three year period ended December 31, 2007 which are included elsewhere in this Annual Report on Form 10-K. The following financial information should be read in conjunction with “Management’s Discussion and Analysis and Results of Operations” and our consolidated financial statements and related notes appearing elsewhere in this Annual Report.

	YEARS ENDED DECEMBER 31,				
	2007	2006	2005	2004	2003
Revenues	$ 55,023,860	$ 47,087,064	$ 49,364,542	$ 49,557,973	$ 32,018,471
Operating expenses:					
Cost of revenues	50,797,354	42,463,724	45,048,917	42,927,994	27,855,508
Depreciation and amortization	1,709,040	1,397,094	1,510,172	1,804,184	1,981,805
Loss on impairment	4,006,664	867,212	—	—	375,000
Selling, general and administrative expenses	12,484,485	14,803,062	11,633,713	9,722,719	8,543,664
Advertising and marketing	146,471	1,335,745	175,725	81,686	32,143
Total Operating Expenses	69,144,014	60,866,837	58,368,527	54,536,583	38,788,120
Operating loss	(14,120,154)	(13,779,773)	(9,003,985)	(4,978,610)	(6,769,649)
Other income (expense):					
Interest income	71,950	318,333	474,109	26,428	12,227
Interest expense	(88,993)	(114,006)	(434,749)	(2,254,488)	(859,123)
Gain (loss) on settlements of debt	618,885	465,854	(75,927)	2,174,530	3,918,295
Gain on sale of investment in Estel	937,578	—	—	—	—
Loss from investment in Estel	(60,000)	(185,234)	(541,876)	(519,728)	(746,792)
Other	(27,536)	44,801	(195,006)	(15,965)	(97,766)
Minority interests	—	67,694	175,353	(7,654)	157,617
Total other income (expense)	1,451,884	597,442	(598,096)	(596,877)	2,384,458
Loss from continuing operations	(12,668,270)	(13,182,331)	(9,602,081)	(5,575,487)	(4,385,191)
Discontinued operations:					
Income (loss) from discontinued operations	—	(168,871)	207,007	545,215	208,620
Net loss	$ (12,668,270)	$ (13,351,202)	$ (9,395,074)	$ (5,030,272)	$ (4,176,571)
Losses applicable to common stockholders:					
Loss from continuing operations	$ (12,668,270)	$ (13,182,331)	$ (9,602,081)	$ (5,575,487)	$ (4,385,191)
Preferred stock dividends	(572,087)	—	—	(385,918)	(635,254)
Net loss applicable to common stockholders from continuing operations:	(13,240,357)	(13,182,331)	(9,602,081)	(5,961,405)	(5,020,445)
Income (loss) from discontinued operations	—	(168,871)	207,007	545,215	208,620
Net loss applicable to common stockholders	$ (13,240,357)	$ (13,351,202)	$ (9,395,074)	$ (5,416,190)	$ (4,811,825)
Basic and diluted net loss per common share:					
Loss from continuing operations	$ (0.48)	$ (0.49)	$ (0.39)	$ (0.35)	$ (0.37)
Income (loss) from discontinued operations	—	(0.01)	0.01	0.03	0.02
Net loss applicable to common stockholders	$ (0.48)	$ (0.50)	$ (0.38)	$ (0.32)	$ (0.35)
Weighted average shares outstanding					
Basic and diluted	27,314,196	26,737,083	24,965,080	16,707,114	13,616,803

	YEARS ENDED DECEMBER 31,				
	2007	2006	2005	2004	2003
Operating data:					
Capital expenditures	$ (980,694)	$ (3,299,198)	$ (1,877,252)	$ (627,219)	$ (582,149)
Summary Cash Flow Data:					
Net cash used in operating activities	(7,608,589)	(11,343,665)	(7,980,651)	(4,874,834)	(4,884,543)
Net cash used in investing activities	(304,615)	(3,693,097)	(2,396,445)	(250,460)	(744,071)
Net cash provided by financing activities	5,284,866	2,989,413	20,798,874	6,288,375	8,097,832
Balance Sheet Data (at period end):					
Cash	$ 114,817	$ 2,743,155	$ 14,790,504	$ 4,368,726	$ 3,205,645
Restricted cash	416,566	781,566	218,176	380,276	736,626
Property and equipment	13,283,603	14,262,669	12,214,290	11,022,330	10,078,806
Property and equipment, net	5,425,846	6,422,016	4,270,966	3,271,474	3,743,293
Total assets	18,128,289	27,573,300	34,385,779	13,662,117	11,681,625
Total debt	1,094,681	1,216,746	1,577,615	5,687,631	4,644,904
Redeemable preferred stock	—	—	—	9,716,026	3,466,538
Total stockholders' equity (deficit)	$ 6,695,183	$ 13,445,958	$ 17,721,641	$(13,290,029)	$ (9,866,927)

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

The following discussion of our financial condition and results of operations should be read together with our 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, that involve substantial risks and uncertainties. When used in this report the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to our management or us are intended to identify such forward-looking statements. Our 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 VoIP services, private network, Internet access, and other advanced services to, from, in and between emerging markets in Asia, the Middle East, Africa, Latin America, and the Caribbean. Our corporate strategy focuses our resources on customizing VoIP services to meet the demands of international communities of interest in emerging markets around the world. We seek to gain early entry in high growth emerging markets, often in partnership with local organizations that have strong distribution channels, regulatory experience, market intelligence, the ability to deliver local loops and the capability of providing customer service support. This approach enables us to introduce our Internet protocol telecommunications services in these markets, thereby benefiting from the time-to-market advantages, expanded geographic reach and reduced capital requirements that local partnerships afford. Additionally, we have built a carrier grade retail infrastructure to expand our VoIP service and feature options and to better support the growth of our VoIP services to consumers and corporations.

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Revenues	$ 55,023,860	$ 47,087,064	$ 49,364,542
Operating expenses:			
Cost of revenues	50,797,354	42,463,724	45,048,917
Depreciation and amortization	1,709,040	1,397,094	1,510,172
Loss on impairment	4,006,664	867,212	—
Selling, general and administrative	12,484,485	14,803,062	11,633,713
Advertising and marketing	146,471	1,335,745	175,725
Total operating expenses	69,144,014	60,866,837	58,368,527
Operating loss	(14,120,154)	(13,779,773)	(9,003,985)
Other income (expense):			
Interest income	71,950	318,333	474,109
Interest expense	(88,993)	(114,006)	(434,749)
Gain (loss) on settlements of debt	618,885	465,854	(75,927)
Gain on sale of investment in Estel	937,578	—	—
Loss from investment in Estel	(60,000)	(185,234)	(541,876)
Other	(27,536)	44,801	(195,006)
Minority interests	—	67,694	175,353
Total other income (expense)	1,451,884	597,442)	(598,096)
Loss from continuing operations	(12,668,270)	(13,182,331)	(9,602,081)
Loss from discontinued operations	—	(168,871)	207,007
Net loss	$ (12,668,270)	$ (13,351,202)	$ (9,395,074)

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Revenues	100.0%	100.0%	100.0%
Operating expenses:			
Cost of revenues	92.3%	90.2%	91.3%
Depreciation and amortization	3.1%	3.0%	3.1%
Loss on impairment	7.3%	1.8%	0.0%
Selling, general and administrative	22.7%	31.4%	23.6%
Advertising and marketing	0.3%	2.8%	0.4%
Total operating expenses	125.7%	129.2%	118.4%
Operating loss	(25.7)%	(29.2)%	(18.4)%
Other income (expense):			
Interest income	0.1%	0.7%	1.0%
Interest expense	(0.2)%	(0.2)%	(0.9)%
Gain (loss) on settlement of debt	1.2%	1.0%	(0.2)%
Gain on sale of investment in Estel	1.7%		
Loss from investment in Estel	(0.1)%	(0.4)%	(1.1)%
Other	—	0.1%	(0.4)%
Minority interests	—	0.1%	0.4%
Total other income (expense)	2.7%	1.3%	(1.2)%

Loss from continuing operations	(23)%	(27.9)%	(19.6)%
Loss from discontinued operations	—	(0.4)%	0.4%
Net loss	(23)%	(28.3)%	(19.2)%

Revenues

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

In an effort to further increase margins, expand our retail customer base, and develop more stable revenue streams, we have begun to focus significant effort and resources to build our VoIP business to consumers and corporations. While this does not yet represent a significant portion of our revenue base, we expect to continue to increase our emphasis in this area. We believe that this will complement our carrier business with a higher margin and more stable customer base.

In 2002, we established Efonica F-Z, LLC, as a joint venture retail services company marketing VoIP products to consumer and corporate customers in emerging markets. We initially acquired a 50.9% interest in Efonica. Beginning in the Middle East, Asia and Africa, then extending into Latin America, Efonica's services are primarily sold through distribution channels on a pre-paid basis. Efonica's customers can place calls from anywhere in the world to any destination using a personal computer, Internet protocol telephone or regular telephone when accompanied by a hardware device that may be purchased through Efonica. We believe that the introduction of advanced features such as voicemail, call waiting and call forwarding will enhance this value-added offering. In February 2005, we closed on the purchase of the 49.8% minority interest in Efonica.

We manage our revenues by product and customer. We manage our costs by provider (vendor). We track total revenue at the customer level because our sales force has to manage the revenue generation at the customer level, and invoices are billed to and collected at the customer level. We also have to track the same revenues by product, because different products have different billing and payment terms, and individual customers may have multiple billing and payment terms if they purchase multiple products from us.

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

Operating Expenses

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

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

Depreciation and amortization includes depreciation of our communications network equipment, amortization of leasehold improvements of our switch locations and administrative facilities, and the depreciation of our office equipment and fixtures. In 2006, it also includes amortization of the Efonica customer list.

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 our retail products and services, as well as for public relations.

Company Highlights

The following summary of significant events during the two years ended December 31, 2007, highlights the accomplishments and events that have influenced our performance during that time period.

2007

- Efonica VoIP products at CeBIT - Showcasing Efonica VoIP services, including retail and corporate focused VoIP solution to CeBIT (the world's largest trade fair showcasing digital IT and telecommunications solutions for home and work environments);
- Consummation of Private Placement - In May 2007, the Company entered into subscription agreements with 28 individual investors for an offering of 3,375 shares of Series A-2 Cumulative Convertible Preferred Stock, in consideration for $3.375 million (the "Series A-2 Preferred Stock");
- Strategic Investment - A global communications service provider, DigitalFX International, Inc. has made a $700,000 strategic investment in the Company;
- Sale of its Equity Interest in Indian Joint Venture - The Company completed the sale of its 49% equity share of Estel Communications Pvt., LTD, an Internet service provider in India;
- Interview with strategic investor- DigitalFX International, Inc.'s President Amy Black and President and CEO Matthew Rosen of Fusion interviewed in a live web cast on MN1, the world's premier web-based business news outlet to discuss their agreement and other current events;
- VoIP World Conference in Dubai- On June 18th 2007, CEO, Mathew Rosen, delivered a keynote address to VoIP World Middle East 2007 conference in Dubai, UAE;
- Launches Efonica Mobilink Service in Jordan - the Company announced that it has already expanded its network capacity in Jordan to meet growing customer demand;
- Internet Café Solution - This new product targets a growing segment of the international calling marketplace, expanding Fusion's current reach into corporate, consumer and carrier markets worldwide;
- Acquires Telecommunications License in Dominican Republic - Initiates Plan to Launch Comprehensive Suite of Voice and Video Solutions;
- Consummation of Private Placement - In November 2007, the Company entered into subscription agreements with 6 individual investors for an offering of 2,936,821 shares of Common Stock in consideration for. $1.475 million.

2006

- Licensed Market-Leading Technology - Licensed Global IP Sound's market-leading technology to power its VoIP softphone;
- Filed Patent Application - Filed patent application for our proprietary VoIP technology for SIP peer-to-peer VoIP communication;
- Completion of Softphone Development - Completed development of our proprietary PC-based VoIP softphone, which allows us to differentiate our Efonica® VoIP offering;
- Launched Free Internet Service - Launched new free Internet phone service, which allows Efonica® subscribers worldwide to make free calls without computers. We also created the Worldwide Internet Area Code™ which allows subscribers to use their existing telephone numbers preceded by a "10";

- Filed for Patent for Worldwide Internet Area Code - Filed patent application for Worldwide Internet Area Code™;

- Introduction of EFO Out - We introduced one of our new paid services, EFO Out, which allows users to call any landline or mobile telephone number in the world at extremely competitive prices;

- Jinti Partnership - Entered into a strategic partnership with Jinti, a rapidly growing Chinese community services site that currently attracts in excess of 3 million unique visitors from China each month;

- Marketing Alliance with MasterCard worldwide - We entered into a retail marketing alliance with MasterCard Worldwide to offer our suite of premium paid VoIP communication services to MasterCard cardholders;

- Efonica subscribers exceed 1,000,000 - Since launching our new Efonica VoIP service on June 19, 2006, we have registered more than one million subscribers;

- Efonica Services in Jordan - Introduction of our Efonica VoIP services in Jordan to allow us to continue to connect communities worldwide, due to our securing exclusive rights to a Jordanian Telecommunications License;

- Introduction of Mobilink - Launched revolutionary new Mobilink Service, which offers U.S. consumers access to VoIP services from their mobile phones, without Internet access or special software; and

- Consummation of Private Placement - In December 2006, we consummated a $3.875 million private placement of a newly designated class of convertible preferred stock. Participating were a group of investors including Fusion's Chairman, its CEO and each of the other nine members of the Board of Directors.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006.

Revenues

Consolidated revenues were $55 million during 2007, compared to $47.1 million during 2006, an increase of $7.9 million or 16.9%.

Revenues for Voice to Carriers increased by $9.6 million or 22.1%, to $53.3 million during 2007 from $43.6 million during 2006. The increase in revenues was the result of an increase in voice traffic as well as an increase in rates compared to 2006.

Revenues for consumers, corporations and other decreased by $1.7 million or 49.2% to $1.7 million during 2007, from $3.4 million during 2006. This decrease was mainly due to technical difficulties encountered in the development of our Efonica retail services platform, which held back the growth in this service and due to the cancellation during late 2006 of a government contract and the loss of a high speed internet access arrangement for a foreign carrier. We have largely resolved the technical issues and expect this segment's revenues to grow significantly during the next few years.

Cost of Revenues

Consolidated costs of revenues were $50.8 million during 2007, compared to $42.5 million during 2006, an increase of $8.3 million or 19.6%. Approximately $9.4 million of this increase was attributable to an increase in Voice to Carriers. This increase was partially offset by a decrease in the cost of revenues for consumers, corporations and other by $1.1 million or 45.4%, which went to $1.3 million during 2007 from $2.4 million during 2006, consistent with the revenue decrease.

The consolidated gross margin percentage decreased to 8% during 2007 from 10% during 2006. This decrease relates primarily to the consumers, corporation and other due to difficulties encountered in the development of our Efonica retail service platform, cancellation of a government contract and the loss of a high speed internet access arrangement for a foreign carrier.

***Operating* Expenses**

Depreciation and Amortization

Depreciation and amortization increased by $0.3 or 22.3% to $1.7 million during 2007, from $1.4 million during 2006. Our depreciation expense increased as more assets were acquired to support the retail platform during September 2006.

Loss on Impairment.

During 2007, the Company commenced its annual impairment testing on its Goodwill and Other Intangible Assets. As a result of the testing, on March 20, 2008, the Company concluded a charge for impairment is required and recorded an impairment loss of approximately $4 million as of December 31, 2007. Also, during 2006, the Company wrote-off approximately $277,000 goodwill recorded in connection with our Jamaican joint venture. In addition, the Company recognized approximately $591,000 impairment on its retail infrastructure equipment.

Selling, General and Administrative.

Selling, general and administrative expenses decreased by $2.3 million or 15.7% to $12.5 million during 2007, from $14.8 million during 2006. This decrease is primarily attributed to decreased salaries, benefits and other personnel related expenses as a result of the Company's increased focus on cost containment.

Advertising and Marketing

Advertising and marketing expenses decreased $1.2 million or 89% to $0.1 million during 2007, from $1.3 during 2006. The decrease is a result of a more aggressive marketing campaign during the 2006.

Operating Loss

Our operating loss decreased by $0.2 million or 1.7% to a loss of $13.5 million during 2007, from a loss of $13.8 million during 2006. The decrease in operating loss was primarily attributable to the increased revenues and reduced selling, general and administrative expenses.

Other Income (Expense)

Total other income increased by $0.9 million or 143% to $1.5 million during 2007, from $0.6 million during 2006. The increase is primarily attributable to $0.9 million from the gain on sale of investment in Estel and $0.2 million from gain on settlement of debt, which resulted due to settlement of vendor obligation. The increase was partially offset by the decrease in interest income due to cash being used for operating activities.

Discontinued Operations

During 2006, the Company incurred $0.2 million in loss from discontinued operations with its Turkey subsidiary.

Net Loss

Net loss decreased by $0.7 million, or 5.1% for 2007, compared to 2006. The primary factors contributing to the improvement were the increase in revenue and a decrease in selling and general and administrative expenses.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005.

Revenues

Consolidated revenues were $47.1 million for 2006 compared to $49.4 million for 2005, a decrease of 4.6%.

Revenues for voice services sold to carriers remained relatively constant year over year, at $43.6 million for both 2006 and 2005. Although there was no increase in the year over year comparison, there had been an unusually high peak in the second quarter of 2005 that was an anomaly. Carrier revenues have consistently increased quarter over quarter since that peak period.

Revenues for consumers, corporations and other decreased from $5.8 million in 2005 to $3.4 million in 2006. The decrease was mainly due to technical difficulties encountered in the development of our Efonica retail services platform, which held back the growth of this segment, and also due to the cancellations of government contracts. We expect the technical issues with the new retail VoIP platform to be resolved during this year, and we expect this segment's revenues to grow significantly during the next few years.

Cost of Revenues

Consolidated cost of revenues improved by $2.6 million, or 5.7%, decreasing from $45.0 million in 2005 to $42.5 million in 2006. Approximately $1.0 million of this decrease was attributable to an improvement in efficiencies of route management for voice services to carriers. The remaining decrease in cost of revenues was attributable to a decrease in revenues for consumers, corporations and other.

Consolidated gross margin increased $0.3 million for 2006 over 2005. Gross margin for voice services to carriers increased by $1.1 million, but was partially offset by a decrease in the gross margin for consumers, corporations and other.

Operating Expenses

Depreciation and Amortization. Depreciation and amortization decreased to $1.4 million during the year ended 2006 from $1.5 million, or 7.5%, during the year ended 2005. Our depreciation decreased as a result of many of our assets being fully depreciated during all or a part of 2006.

Selling, General and Administrative

Selling, general and administrative expenses increased $3.2 million or 27.2% to $14.8 million during 2006, from $11.6 million during 2005. This increase is primarily attributed to increased salaries and benefits, as more personnel have been required to support the growth and expansion of our infrastructure. In addition, contributing to the 2006 increase is approximately $0.7 million of compensation expense recorded in connection with our adoption of SFAS123(R) on January 1, 2006. Our professional fees have also increased as a result of our growth and our becoming a public company in February 2005, including expenses associated with Sarbanes Oxley, travel related expenses, occupancy costs, and insurance expenses. However, we are taking strong measures to reduce our expenses, and believe that as we execute our business strategies, selling, general and administrative expenses as a percentage of revenues will begin to decline.

Advertising and Marketing

Advertising and marketing increased from $0.2 million in 2005 to $1.3 million in 2006, associated with the promotional campaign for the launch of our new retail products and services.

Operating Loss

Our operating loss increased by $4.8 million or 53% to a loss of $13.8 million during 2006, from a loss of $9.0 million during 2005. The increase in operating loss was attributable to the items mentioned above, including the decrease in gross margin, the increase in selling, general and administrative expenses associated with our retail infrastructure growth, the increase in advertising and marketing for our new retail services, and the increased costs associated with regulatory compliance requirements.

Other Income (Expense)

Total other income (expense) changed from a net loss of $0.6 million in 2005 to a net gain of $0.6 million during 2006. During 2006, we had interest expense of $0.1 million in contrast to interest expense of $0.4 million during 2005. The $0.4 million interest expense for 2005 included $0.3 million of accretion since all the Series C Preferred Stock was converted to common stock in connection with our February 2005 IPO. Consequently, accretion ceased and 2005 interest expense only includes accretion for the period between January 1, 2005 and February 17, 2005. A significant portion of this debt was repaid during February 2005 in connection with our IPO. We also had decreased interest income during 2006 of $0.3 million versus $0.5 million during 2005, as cash was used in operating activities. Gain (loss) on debt settlements changed from a net loss of $0.1 million in 2005 to a net gain of $0.5 million during 2006. The 2006 gain on debt forgiveness was attributed to the settlements of vendor obligation. The loss from investment in Estel decreased $0.3 million or 65.8%, from $0.5 million in 2005 to $0.2 million during 2006. Minority interest decreased approximately $0.1 million during 2006 from $0.2 million during 2005. The 2005 minority interests balance is attributed to the losses incurred in connection with our Turkey joint venture.

Discontinued Operations.

In 2006 Fusion incurred $0.2 million in loss from discontinued operations associated with its Turkey subsidiary. In 2005 the Company had income of $0.2 million associated with the resolution of certain liabilities associated with previous discontinued operations.

Net Loss

The net loss for 2006 was $13.4 million compared to $9.4 million for 2005. The factors noted above that impacted the net operating loss were partially reduced by the positive other income.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating and net losses. In addition, we are not generating positive cash flows from operations. As of December 31, 2007, we had stockholders' equity of approximately $6.7 million in comparison to $13.4 million at December 31, 2006, and a working capital deficit of approximately $4.2 million in comparison to working capital deficit of $2.7 million at December 31, 2006. The proceeds have been and will continue to be used for working capital and general corporate purposes, international deployment, and to fund the development of our retail service offerings. We may seek further financing through the sale of debt or equity securities, although we have no commitments to do so.

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.

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

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Cash used in operating activities	$ (7,608,589)	$ (11,343,665)	$ (7,980,651)
Cash used in investing activities	(304,615)	(3,693,097)	(2,396,445)
Cash provided by financing activities	5,284,866	2,989,413	20,798,874
Increase (decrease) in cash and cash equivalents	(2,628,338)	(12,047,349)	10,421,778
Cash and cash equivalents, beginning of period	2,743,155	14,790,504	4,368,726
Cash and cash equivalents, end of period	$ 114,817	$ 2,743,155	$ 14,790,504

Source of Liquidity

As of December 31, 2007, we had cash and cash equivalents of approximately $0.1 million. In addition, as of December 31, 2007, we had approximately $0.5 million of cash restricted from withdrawal and held by banks as certificates of deposits securing letters of credit.

From our inception through December 31, 2007, we financed our operations from cash provided from financing activities. These activities were primarily through net proceeds of approximately $23.3 million from our IPO, and the private placement of approximately $60.5 million of equity securities, $1.6 million from the exercise of stock options and warrants, and $22.0 million from the issuance of notes. In addition, since inception we have financed the acquisition of $8.2 million of fixed assets through capital leases.

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

Uses of Liquidity

Our short-term and long-term liquidity needs arise primarily from interest and principal payments related to our capital lease obligations, capital expenditures, 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, $1 million during 2007, $3.3 million during 2006 and $1.9 million in 2005. We expect our cash capital expenditures to be approximately $1.0 million for the year ending December 31, 2008. The 2008 estimated capital expenditures primarily consist of the continued customization of our retail infrastructure, purchase of additional software for expanded product offerings, and international deployment.

Cash used in operations was approximately $7.6 million during 2007, $11.3 million during 2006, and $8.0 million during 2005. The cash used in our operations has historically been a function of our net losses, gains on forgiveness of debt, and changes in working capital as a result of the timing of receipts and disbursements. Our net cash used in operating activities decreased significantly during 2007, primarily due to the completion of the majority of the expenses associated with the build-out of our retail infrastructure, as well as a continued focus on general expense reduction. As we transition our existing customers to our new infrastructure and continue to build that revenue base, we expect our net cash used in operating activities to improve during future periods.

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

Debt Service Requirements

At December 31, 2007 we had approximately $1.1 million of current and long-term debt. This balance relates to notes payable and our capital leases.

Capital Instruments

In December 2006, the Company completed the first phase of a private placement for the purpose of raising working capital to fund the Company's operations. The private placement provided for the issuance of a maximum of 10,000 shares of the Company's newly designated Preferred Stock, Series A-1 at $1,000 per share. The total number of shares of Preferred Stock Series A-1 issued in this private placement was 3,875 shares, for which net proceeds of approximately $3.8 million were received. In addition, the Company issued five year warrants to purchase 1,160,204 shares of common stock exercisable at $1.67 per share. The terms of the Series A-1 Preferred Stock will pay dividends at 8% and are convertible into Fusion's common stock at a fixed conversion price of $1.67 per share.

During the second quarter ended June 30, 2007, the Company completed the second phase and over-allotment of the private placement. During the second phase, the Company issued 3,375 shares of Preferred Stock, Series A-2 for net proceeds of approximately $3.375 million. In addition, the Company issued five year warrants to purchase 2,033,151 shares of common stock exercisable at $0.83 per share. The Company received an additional $0.745 million towards the over-allotment and issued 700 shares of Preferred Stock, Series A-3 and 45 shares of Preferred Stock, Series A-4 and five year Warrants to purchase 421,687 and 28,482 shares of common stock at a fixed exercise price of $0.83.and $0.79, respectively.

In November 2007, the Company commenced a private placement for the purpose of raising working capital for the Company's operations. The private placement provided for the sale of up to $7 million of the Company's common stock. The Company issued 2,936,321 shares of common stock for which proceeds of approximately $1.46 million were received, net of expenses of approximately $16,000. In addition, the Company issued five year warrants to purchase 1,468,161 shares of common stock exercisable at 120% of the closing price of the Company's common stock the day before closing.

Summary of Contractual Obligations

As of December 31, 2007

	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Contractual obligations:					
Debt maturing within one year	$ 566,567	$ 283,433	$ —	$ —	$ 850,000,
Capital leases	233,759	10,922	—	—	244,681
Operating leases	1,370,043	2,179,183	1,336,483	1,729,033	6,614,742
Minimum purchase commitments	34,000	—	—	—	34,000
Total contractual cash obligations	$ 2,204,369	$ 2,473,538	$ 1,336,483	$ 1,729,033	$ 7,743,423

Critical Accounting Policies and Estimates

We have identified the policies and significant estimation processes below as critical to our business operations and the understanding of our results of operations. The listing is not intended to be a comprehensive list. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the 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 our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to Consolidated Financial Statements for the year ended December 31, 2007, included in this Annual Report on Form 10-K. Our preparation of our 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 our 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

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

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

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

Additionally, the majority of our VoIP services to consumers and corporations are prepaid. The revenue received from the prepayments that is related to VoIP termination services in the current month is booked to the current month's revenue, and the remainder of the prepayments is booked to deferred revenue, until usage occurs.

Accounts Receivable

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

Cost of Revenues and Cost of Revenues Accrual

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

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

Intangible Assets and Goodwill Impairment Testing

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

Income Taxes

We account for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires companies to recognize deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in our consolidated financial statements. Deferred tax liabilities and assets are determined based on the temporary differences between the consolidated 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 December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). Among other changes, SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction at fair value; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, including earn-out provisions; and requires the acquirer to disclose to investors and all other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is generally effective for business combinations occurring in the first annual reporting period beginning after December 15, 2008. The Company is evaluating the effect of this recently issued standard on its future consolidated results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements and amendment of ARB No. 51" ("SFAS 160"). Among other items, SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. SFAS 160 is effective for the first annual reporting period beginning after December 15, 2008. The Company is evaluating the effect of this recently issued standard on its consolidated results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" ("SFAS 159"). This Statement allows all entities a one-time election to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value (the "fair value option"). SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe SFAS 159 will have a significant impact on it financial statements.

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). There were no unrecognized tax benefits as of January 1, 2007 and as of December 31, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. There was no change to this balance at December 31, 2007. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

Inflation

We do not believe inflation has a significant effect on our operations at this time.

Forward Looking Statements

Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to certain market risks that are inherent in our financial instruments. These instruments arise from transactions in the normal course of business.

As of December 31, 2007, the majority of our cash balances were held primarily in the form of a short-term highly liquid investment grade money market fund in a major financial institution. Due to the short-term nature of our investments, we believe that we are not subject to any material interest or market rate risks.

At December 31, 2007, all of our outstanding debt had fixed interest rates. As such, we are not subject to interest rate risk on any of our debt. As such, we currently believe that our interest rate risk is very low.

We currently do not conduct any significant amount of business in currencies other than the United States dollar. The reporting and functional currency for our Dubai international subsidiary is the United States dollar. Our other international subsidiaries currently do not have any significant operations that would provide foreign currency risk. However, in the future, we likely will conduct a larger percentage of our business in other foreign currencies that could have an adverse impact on our future results of operations.

Item 8. Consolidated Financial Statements and Supplementary Data

Our Consolidated Financial Statements required by this Item are included in Item 15 of this report on pages F-1 through F-32.

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

None.

Item 9A(T). Controls and Procedure

Evaluation of Disclosure Controls and Procedures

Fusion maintains "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer have concluded that Fusion's disclosure controls and procedures were effective.

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, 2007. 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, 2007. This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There was no change in the internal control over financial reporting that occurred during the quarter ended December 31, 2007 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 information required by this Item is incorporated herein by reference to the sections entitled "Management" and "Principal Stockholders" in the proxy statement for our 2008 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the section entitled "Executive Compensation" in the proxy statement for our 2008 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the section entitled "Principal Stockholders" in the proxy statement for our 2008 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the section entitled "Related Party Transactions" in the proxy statement for our 2008 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section entitled "Principal Accounting Fees and Services" in the proxy statement for our 2008 Annual Meeting of Stockholders.

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 on page F-1 hereto.

(a)(2) Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts is included on page F-32 hereto. All other financial statement schedules have been omitted because the information required to be set forth therein is not applicable or is shown on the financial statements or notes thereto.

(a)(3) Exhibits.

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Securities and Exchange Commission.

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-3 & 4 Preferred Stock (9)
3.1(d)	Form of Subscription Agreement (7)
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(*)
10.6	Agreement between Fusion registrant and Communications Ventures PVT. LTD, dated May 13, 2004(*)
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(*)
10.10.11	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(*)
10.28	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(*)
10.30	Employment Agreement between registrant and Roger Karam(*)
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(*)

Exhibit No.	Description
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(*)
10.36.1	Stock Purchase Agreement dated March 8, 2005 between FUSION TURKEY, L.L.C., LDTS UZAK MESAFE TELEKOMÜNIKASYON VE .ILETIS,IM HIZMETLERI SAN.TIC.A.S. and Bayram Ali BAYRAMOGLU; Mecit BAYRAMOGLU Mehmet; Musa BAYSAN; Yahya BAYRAMOGLU and Özlem BAYSAN.(1)
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)
10.41	Certificate of Designation of the Rights and Preferences of the Series A-1 Preferred Stock (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(4)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(4)
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (4)
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(4)

* Originally filed with our Registration Statement no. 33-120412 and incorporated herein by reference.

** Originally filed with our Registration Statement no. 33-120206 and incorporated herein by reference.

(1) Filed as Exhibit to our Current Report on Form 8-K filed on March 14, 2005 and incorporated herein by reference.

(2) Filed as Exhibit to or Annual Report on Form 10-K filed March 31, 2005 and incorporated herein by reference.

(3) Filed as Exhibit to our Current Report on Form 8-K filed on March 17, 2006, and incorporated herein by reference.

(4) Filed herewith.

(5) Filed as Exhibit to our Current Report on Form 8-K filed on December 15, 2006, and incorporated herein by reference.

(6) Filed as Exhibit to our Current Report on Form 8-K filed on May 9, 2007, and incorporated herein by reference.

(7) Filed as Exhibit to our Current Report on Form 8-K filed on November 23, 2007 and 8K/A on Novermber 27, 2007, and incorporated herein by reference.

(8) Filed as Exhibit to our 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 Strock 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: March 31, 2008

By: /s/ Matthew D. Rosen

Matthew D. Rosen
Chief Executive Officer

Date: March 31, 2008

By: /s/ Barbara Hughes

Barbara Hughes
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Marvin S. Rosen Marvin S. Rosen	Chairman of the Board	March 31, 2008
/s/ Gordon Hutchins, Jr. Gordon Hutchins, Jr.	President and Chief Operating Officer	March 31, 2008
/s/ Philip Turits Philip Turits	Secretary, Treasurer, and Director	March 31, 2008
/s/ E. Alan Brumberger E. Alan Brumberger	Director	March 31, 2008
/s/ Michael Del Giudice Michael Del Giudice	Director	March 31, 2008
/s/ Julius Erving Julius Erving	Director	March 31, 2008
/s/ Evelyn Langlieb Greer Evelyn Langlieb Greer	Director	March 31, 2008
/s/ Fred P. Hochberg Fred P. Hochberg	Director	March 31, 2008
/s/ Raymond E. Mabus	Director	March 31, 2008

Raymond E. Mabus		
/s/ Dennis Mehiel	Director	March 31, 2008
Dennis Mehiel		
/s/ Paul C. O’Brien	Director	March 31, 2008
Paul C. O’Brien		

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES**

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, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, 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 3 to the consolidated financial statements, the Company has had 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 3. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

In connection with our audits of the consolidated financial statements referred to above, we audited the consolidated financial statement schedule listed in the accompanying index. In our opinion, the consolidated financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

/s/ Rothstein, Kass & Company P.C.
Roseland, New Jersey
March 31, 2008

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 114,817	$ 2,743,155
Accounts receivable, net of allowance for doubtful accounts of approximately $830,000 and $694,000 in 2007 and 2006, respectively	5,545,408	6,743,753
Restricted cash	—	365,000
Prepaid expenses and other current assets	481,556	622,207
Assets held for sale	129,231	129,231
Total current assets	6,271,012	10,603,346
Property and equipment, net	5,425,846	6,422,016
Other assets		
Security deposits	66,638	141,868
Restricted cash	416,566	416,566
Goodwill	964,557	4,971,221
Intangible assets, net	4,892,215	4,913,360
Other assets	91,455	104,923
Total other assets	6,431,431	10,547,938
TOTAL ASSETS	$ 18,128,289	$ 27,573,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long-term debt, current portion	$ 566,567	$ 150,000
Capital lease/equipment financing obligations, current portion	233,759	1,066,746
Accounts payable and accrued expenses	9,663,325	11,461,112
Investment in Estel	—	554,286
Liabilities of discontinued operations	15,829	95,085
Total current liabilities	10,479,480	13,327,229
Long-term liabilities		
Long-term debt, net of current portion	283,433	—
Capital lease/equipment financing obligations, net of current portion	10,922	—
Other long-term liabilities	659,271	800,113
Total long-term liabilities	953,626	800,113
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 7,995 and 3,875 shares issued and outstanding in 2007 and 2006, respectively	80	39
Common stock, $0.01 par value, 105,000,000 shares authorized, 29,907,786 shares issued and outstanding in 2007 and 26,971,465 shares issued and 26,958,965 shares outstanding in 2006	299,078	269,590
Capital in excess of par value	120,402,691	114,514,725
Accumulated deficit	(114,006,666)	(101,338,396)
Total stockholders' equity	6,695,183	13,445,958
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,128,289	$ 27,573,300

See accompanying notes to consolidated financial statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2007	2006	2005
REVENUES	$ 55,023,860	$ 47,087,064	$ 49,364,542
Operating expenses:			
Cost of revenues, exclusive of depreciation and amortization, shown separately below	50,797,354.	42,463,724	45,048,917
Depreciation and amortization	1,709,040	1,397,094	1,510,172
Loss on impairment of goodwill and other long-lived assets	4,006,664	867,212	—
Selling, general and administrative expenses (includes approximately $544,000 and $856,000 non-cash compensation for 2007 and 2006, respectively)	12,484,485	14,803,062	11,633,713
Advertising and marketing	146,471	1,335,745	175,725
Total operating expenses	69,144,014	60,866,837	58,368,527
Operating loss	(14,120,154)	(13,779,773)	(9,003,985)
Other income (expenses):			
Interest income	71,950	318,333	474,109
Interest expense	(88,993)	(114,006)	(434,749)
Gain (loss) on settlements of debt	618,885	465,854	(75,927)
Gain on sale of investment in Estel	937,578	—	—
Loss from investment in Estel	(60,000)	(185,234)	(541,876)
Other	(27,536)	44,801	(195,006)
Minority interests	—	67,694	175,353
Total other income (expenses)	1,451,884	597,442	(598,096)
Loss from continuing operations	(12,668,270)	(13,182,331)	(9,602,081)
Discontinued operations:			
Income (loss) from discontinued operations	—	(168,871)	207,007
Net loss	$ (12,668,270)	$ (13,351,202)	$ (9,395,074)
Losses applicable to common stockholders:			
Loss from continuing operations	$ (12,668,270)	$ (13,182,331)	**$** (9,602,081)
Preferred stock dividends in arrears	(572,087)	—	—
Net loss applicable to common stockholders from continuing operations:	(13,240,357)	(13,182,331)	(9,602,081)
Income (loss) from discontinued operations	—	(168,871)	207,007
Net loss applicable to common stockholders	$ (13,240,357)	$ (13,351,202)	$ (9,395,074)
Basic and diluted net loss per common share:			
Loss from continuing operations	$ (0.48)	$ (0.49)	$ (0.39)
Income (loss) from discontinued operations	—	(0.01)	0.01
Net loss applicable to common stockholders	$ (0.48)	$ (0.50)	$ (0.38)
Weighted average common shares outstanding			
Basic and diluted	27,314,196	26,737,083	24,965,080

See accompanying notes to consolidated financial statements.

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Redeemable Preferred Stock Series C	Preferred Stock Series A-1, A-2, A-3, & A-4	Common Stock	Common Stock Class A	Capital in Excess of Par Value	Stock Dividend Distributable	Accumulated Deficit	Stockholders' Equity (Deficit)
Balances, January 1, 2005	$ 9,716,026	$ —	$ —	$ 174,800	$ 65,127,291	—	$ (78,592,120)	$ (13,290,029)
Proceeds from sale of common stock, net of investment expenses	—	—	40,800	—	23,229,720	—	—	23,270,520
Conversion of convertible notes to common stock, net of debt offering costs	—	—	6,515	—	2,437,880	—	—	2,444,395
Conversion of Preferred Stock to common stock	(10,003,141)	—	31,418	—	9,971,723	—	—	10,003,141
Common stock paid for minority interest in Efonica joint venture	—	—	7,641	—	4,920,559	—	—	4,928,200
Cash difference payment related for purchase of minority interest in Efonica joint venture	—	—	—	—	(430,000)	—	—	(430,000)
Restricted stock issued for consulting services	—	—	114	—	49,886	—	—	50,000
Common stock issued for options	—	—	214	—	50,036	—	—	50,250
Class A common stock issued for warrants	—	—	—	292	84,858	—	—	85,150
Accretion of Series C Preferred Stock	287,115	—	—	—	—	—	—	—
Amortization of stock options granted to consultant	—	—	—	—	5,088	—	—	5,088
Conversion of Class A Common Stock to common stock	—	—	17,692	(17,692)	—	—	—	—
Net loss	—	—	—	—	—	—	(9,395,074)	(9,395,074)
Balances, December 31, 2005	—	—	104,394	157,400	105,447,041	—	(87,987,194)	17,721,641
Proceeds from sale of Preferred Stock, Series A-1, net of investment expenses	—	39	—	—	3,807,757	—	—	3,807,796
Conversion of Class A Common Stock to common stock	—	—	157,400	(157,400)	—	—	—	—
Exercise of warrants			143		357			500
Non-cash compensation expense - stock options	—	—	—	—	720,350	—	—	720,350
Non-cash compensation expense - stock issued for consulting services	—	—	375	—	99,000	—	—	99,375
Release of Efonica								

shares from escrow	—	—	6,756	—	4,350,742	—	—	4,357,498
Common stock issued to Xtreme VoIP Corp.	—	—	522	—	89,478	—	—	90,000
Net loss	—	—	—	—	—	—	(13,351,202)	(13,351,202)
Balances, December 31, 2006	—	39	269,590	—	114,514,725	—	(101,338,396)	13,445,958
Proceeds from sale of Preferred Stock, Series A-2, A-3 and A-4, net of investment expenses	—	41	—	—	4,085,608	—	—	4,085,649
Proceeds from sale of Common Stock, net of investment expenses			29,363		1,429,917			1,459,280
Difference payment related for purchase of minority interest in Efonica joint venture					(171,852)			(171,852)
Non-cash compensation expense - stock options					511,293			511,293
Non-cash compensation expense - stock issued for consulting servies			125		33,000			33,125
Net Loss							(12,668,270)	(12,668,270)
Balances, December 31, 2007	$	$ $80	$ 299,078	$ —	$120,402,691	$ —	$(114,006,666)	$ 6,695,183

See accompanying notes to consolidated financial statements

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2007	2006	2005
Cash flows from operating activities			
Net loss	$ (12,668,270)	$ (13,351,202)	$ (9,395,074)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on impairment of goodwill and other long-lived assets - continuing operations	4,006,664	867,212	—
Loss on impairment - discontinued operations	—	216,201	—
Gain/loss from sale/disposal of fixed assets	105,807	(22,162)	158,525
Depreciation and amortization	1,709,040	1,397,094	1,510,172
Bad debt expense (recovery)	44,795	(15,250)	350,434
Non-cash compensation expense	544,418	856,392	38,422
(Gain) loss on settlements of debt	—	(465,854)	75,927
Gain on discontinued operations	—	(140,000)	(336,910)
Accretion of Series C Preferred Stock	—	—	287,115
Gain on sale from investment in Estel	(937,578)		
Loss from investment in Estel	60,000	185,234	541,876
Minority interests	—	(67,694)	(175,353)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:			
Accounts receivable, net	1,013,550	(4,200,519)	96,952
Prepaid expenses and other current assets	140,651	691,226	(205,471)
Other assets	13,467	46,976	49,254
Accounts payable and accrued expenses	(1,493,034)	2,244,292	(818,149)
Liabilities of discontinued operations	(7,257)	(385,724)	(158,371)
Other long-term liabilities	(140,842)	800,113	—
Net cash used in operating activities	(7,608,589)	(11,343,665)	(7,980,651)
Cash flows from investing activities:			
Purchase of property and equipment	(980,694)	(3,299,198)	(1,877,252)
Proceeds from sale of property and equipment	—	48,217	—
Proceeds from sale of investment in Estel	484,985	—	—
Advances to Estel	(15,130)	(71,416)	(205,520)
Payments from Estel	20,563	89,285	104,102
Returns of security deposits	3,231	190,024	570,137
Repayments of (payments for) restricted cash	365,000	(563,390)	162,100
Payments for other intangible assets	(10,718)	(86,619)	—
Purchase of Jamaican joint ventures net of cash acquired	—	—	(146,486)
Purchase of Turkey joint venture, net of cash acquired	—	—	(92,971)
Purchase of minority interest in Efonica joint venture, net of cash acquired	—	—	(480,555)
Difference Payment related to purchase of minority interest in Efonica joint venture	(171,852)	—	(430,000)
Net cash used in investing activities	(304,615)	(3,693,097)	(2,396,445)
Cash flows from financing activities:			
Proceeds from sale of common stock and warrants, net	—	—	23,884,533
Proceeds from sale of Series A-1 Preferred Stock, net	—	3,807,796	—
Proceeds from sale of Series A-2, A-3 and A-4 Preferred Stock, net	4,085,649	—	—
Proceeds from sale of common Stock, net	1,459,280	—	—
Proceeds from exercise of stock options	—	—	50,250
Proceeds from the issue and exercise of warrants	—	500	85,150
Proceeds from notes payable - related party	1,100,000	—	—
Repayments of notes payable - related party	(400,000)	—	—
Payments of long-term debt and capital lease/equipment			

financing obligations	(960,063)	(818,883)	(2,538,464)
Payment of dividends on Preferred C Stock	—	—	(664,634)
Contributions to minority stockholders of joint ventures	—	—	(17,961)
Net cash provided by financing activities	5,284,866	2,989,413	20,798,874
Net increase (decrease) in cash and cash equivalents	(2,628,338)	(12,047,349)	10,421,778
Cash and cash equivalents, beginning of year	2,743.155	14,790,504	4,368,726
Cash and cash equivalents, end of year	$ 114,817	$ 2,743,155	$ 14,790,504

See accompanying notes to consolidated financial statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)

	Years Ended December 31,		
	2007	2006	2005
Supplemental disclosure of cash flow information:			
Cash paid during the years for interest	$ 66,041	$ 50,303	$ 621,789
Supplemental disclosure of noncash investing and financing activities:			
Acquisition of capital leases/equipment financing obligations	$ 137,998	$ 228,800	$ 918,716
Acquisition of short-term financing agreement	$ —	$ 553,888	$ —
Release of Efonica shares from escrow	$ —	$ 4,357,498	$ —
Issuance of restricted stock for consulting services	$ 33,125	$ 99,375	$ —
Issuance of common stock for attainment of certain earn outs in Intellectual Property Transfer Agreement	$ —	$ 90,000	$ —
Liability for acquisition of Intellectual Property Transfer Agreement	$ —	$ 30,000	$ —
Conversion of convertible notes payable and related debt offering costs	$ —	$ —	$ 2,444,395
Conversion of Series C Preferred Stock to common stock	$ —	$ —	$ 10,003,141
Conversion of prepaid offering costs to additional paid in capital	$ —	$ —	$ 614,008
Supplemental disclosure of joint venture acquisition activities:			
Fair value of tangible assets, net of cash acquired	$ —	$ —	$ 654,791
Fair value of identifiable intangible assets	—	—	4,877,900
Efonica Difference Payment	—	—	430,000
Goodwill acquired	—	—	5,118,640
Liabilities acquired	—	—	(401,504)
Minority interest acquired	—	—	(244,118)
Common stock issued or to be issued	—	—	(9,285,697)
Cash paid for acquisition of joint ventures, net of cash acquired	$ —	$ —	$ 1,150,012

See accompanying notes to 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 an international communications carrier delivering Voice over Internet Protocol ("VoIP") and other Internet services to, from, in and between emerging markets in Asia, the Middle East, Africa, Latin America, and the Caribbean. The Company currently provides a full suite of communications services to corporations, consumers, communication carriers, Internet service providers and government entities.

2. 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 State 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 sales arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed and determinable and collectibility 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 derives revenue principally from international voice, including VoIP, private networks and Internet services. Variable revenue derived from international voice services is recognized upon completion of a call and is based upon the number of minutes of traffic carried. Revenue from monthly recurring service from long distance, private networks and Internet services are fixed and recurring in nature and are contracted over a specific period of time. Advanced billings for monthly fees are reflected as deferred revenues and are recognized as revenue at the time the service is provided. VoIP services enable customers, typically international corporations or cable operators, to place voice calls anywhere in the world using their personal computer. The majority o f the Company's VoIP services to consumers are prepaid which is initially recorded as deferred revenue. Revenues from VoIP services to consumers are recognized based upon the usage of minutes by the consumer.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts Receivable and allowance for doubtful accounts

The Company values its accounts receivable net of an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a 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.

2. Summary of Significant Accounting Policies - (continued)

Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," approximate the carrying amounts presented in the accompanying Consolidated Balance Sheets.

Goodwill and other Intangible Assets

Goodwill represents the excess of the purchase price of an acquired business over the amounts assigned to assets acquired and liabilities assumed. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is reviewed for impairment on an annual basis. Other intangible assets consist primarily of the trade name and trademarks associated with the Company's wholly-owned subsidiary, Efonica FZ, LLC ("Efonica"). These long-lived assets are not amortized because they have indefinite lives. The remaining intangible asset acquired in the Efonica transaction is a customer list, which is being amortized using the straight-line method over the 10 year estimated useful life.

As discussed in Note 5, the Company completed an annual impairment test of its Goodwill and Other Intangible Assets as of December 31, 2007. Based on the annual impairment test, an impairment loss of approximately $4,006,000 was recorded in December 31, 2007 due to the decline in cash flows from the Efonica retail services.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets, including intangible assets, are reviewed 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 December 2006, the Company recorded $867,212 which consisted of $590,559 of impairment against retail infrastructure equipment, as well as $276,653 of impairment of assets associated with the joint venture in Jamaica. In February of 2006, an asset that had been previously impaired during 2003 was sold, and the Company received proceeds of $45,000, which was the net realizable value that remained on the books. Additionally, the Company also received proceeds of $3,217 for miscellaneous office equipment sold during the year ended December 31, 2006.

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.

2. Summary of Significant Accounting Policies - (continued)

Advertising and Marketing

Advertising and marketing costs primarily relate to the Company's on-line Efonica advertising campaign. In connection with this campaign, the costs of production are expensed as incurred. The costs of communicating this advertising are expensed when received by the on-line consumer (i.e., consumer receives a link to the Efonica website as a result of a search engine keyword search). The Company's costs also include newspaper ads for its Efonica retail services, product press releases, public relations and customer relations fees, and exhibitions the Company attends to promote these retail services.

Income Taxes

The Company complies with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and 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.

Foreign Currency Transaction

The Company's subsidiaries enter into foreign currency transactions. In accordance with SFAS 52 "Foreign Currency Translation", conversion gains or losses resulting from these foreign currency transactions are included in the accompanying Consolidated Statements of Operations.

Earnings (Loss) Per Share

SFAS No. 128, "Earnings Per Share," requires dual presentation of basic and diluted income (loss) per share for all periods presented. Basic income (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 income (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 3,116,676, 2,832,546 and 2,100,798 shares of the Company's common stock as of December 31, 2007, 2006 and 2005, 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 12,900,190, 8,588,709 and 7,462,435 shares of the Company's common stock as of December 31, 2007, 2006 and 2005, 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 provision for Preferred Stock dividend in the amount of approximately $572,000 as of December 31, 2007. However, no cash dividend had been declared by the Board of Directors as of December 31, 2007.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions, as the Company formerly did, using the intrinsic value method as prescribed by Accounting Principles Board ("APB"), Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires that such transactions be accounted for using a fair-value-based method and recognized as an expense in the Company's Consolidated Statements of Operations.

2. Summary of Significant Accounting Policies - (continued)

The Company adopted SFAS No. 123R using the modified prospective method, which required the application of the accounting standard as of January 1, 2006. The Company's consolidated financial statements for the years ended December 31, 2007 and 2006, reflect the impact of adopting SFAS No. 123R.

In accordance with the modified prospective method, the consolidated financial statements for the years prior 2005 have not been restated to reflect, and do not include, the impact of SFAS No. 123R.

Stock-Based compensation expense recognized during the year is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the Consolidated Statements of Operations during the year ended December 31, 2007 and 2006, includes compensation expense for stock-based payment awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant date fair value estimated in accordance with SFAS No. 123R. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the years ended December 31, 2007 and 2006, is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. When estimating forfeitures, the Company considered termination behaviors as well as trends for actual option forfeiture. In the pro forma information required under SFAS No. 148 ("Accounting for Stock-Based Compensation - Transition and disclosure - an amendment of FASB Statement No. 123") for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

The Company has recognized compensation expense based on the estimated grant date fair value method using the Black-Scholes valuation model. The impact on the Company's results of operations of recording stock-based compensation expense related to employees for the year ended December 31, 2007 and 2006, was $511,293 and $720,350, respectively, which is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

The following table illustrates the effect on the net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123R for the year ended December 31, 2005.

	2005
Net loss applicable to common stockholders, as reported	$ (9,395,074)
Deduct: total stock-based compensation expense under SFAS 123(R) for awards, net of related tax effect	(2,152,765)
Net loss applicable to common stockholders, pro forma	$ (11,547,839)
Loss per share:	
Basic and diluted net loss applicable to common stockholders, as reported	$ (0.38)
Basic and diluted net loss applicable to common stockholders, pro forma	$ (0.46)

2. Summary of Significant Accounting Policies - (continued)

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:

	2007	2006	2005
Dividend yield	0.0%	0.0%	0.0%
Average risk free interest rate	3.76%	4.94%	4.26%
Average option term (years)	4.0	4.0	4.0
Stock volatility	89.8%	76.99%	82.0%

Recently Adopted and Issued Accounting Pronouncements

I n December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). Among other changes, SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction at fair value; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, including earn-out provisions; and requires the acquirer to disclose to investors and all other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is generally effective for business combinations occurring in the first annual reporting period beginning after December 15, 2008. The Company is evaluating the effect of this recently issued standard on its future consolidated results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, and amendment of ARB No. 51" ("SFAS 160"). Among other items, SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. SFAS 160 is effective for the first annual reporting period beginning after December 15, 2008. The Company is evaluating the effect of this recently issued standard on its consolidated results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" ("SFAS 159"). This Statement allows all entities a one-time election to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value (the "fair value option"). SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe SFAS 159 will have a significant impact on it financial statements.

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). There were no unrecognized tax benefits as of January 1, 2007 and as of December 31, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. There was no change to this balance at December 31, 2007. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

2. Summary of Significant Accounting Policies - (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2006 and 2005 consolidated financials statements to conform to the 2007 presentation.

3. Going Concern

At December 31, 2007, the Company had a working capital deficit of approximately $4,208,000 and an accumulated deficit of approximately $114,007,000. The Company has continued to sustain losses from operations, and for the years ended December 31, 2007, 2006 and 2005 has incurred a net loss of approximately $12,668,000, $13,351,000, and $9,395,000, respectively. In addition, the Company has not generated positive cash flow from operations since inception. The Company is reviewing options to raise additional capital through debt and/or equity financing. Management is aware that its current cash resources are not adequate to fund its operations for the remainder of the year. During the year ended December 31, 2007, the Company raised $5.54 million net of expenses from sale of its securities through private placements. The Company’s long-term liquidity is dependent on its ability to successfully complete the rollout of its full suite of certain VoIP paid services and effectively market its paid services, in order to attain profitable operations in the future. The Company cannot make any guarantees if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company’s ability to continue 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.

4. Joint Ventures, Acquisitions and Divestitures

Estel

In March 2000, the Company entered into a joint venture agreement with Communications Ventures India Pvt. Ltd. to form an entity named Estel Communication Pvt. Ltd. (“Estel”). Estel is organized and exists under the laws of India and has its office in New Delhi, India. The Company directly owned 49% of the joint venture and had voting rights in another 1.01%, which in turn gave the Company a 50.01% voting control in the joint venture.

On May 15, 2007, the Company completed the sale of its 49% equity ownership of Estel Communications Pvt. Ltd. (“Estel”) to Karuturi Networks Limited. Prior to the sale, the Company had funded 100% of Estel’s operations and as a result, the Company recorded 100% of Estel’s losses for the years ended December 31, 2007, 2006 and 2005 as loss from investment in Estel which amounted to approximately $60,000, $185,000 and $542,000, respectively. As consideration, the Company received approximately $485,000 in proceeds from the transaction and recorded a gain on sale of approximately $938,000 for the year ended December 31, 2007.

4. Joint Ventures, Acquisitions and Divestitures (continued)

Efonica

In December 2002, the Company acquired a 50.2% equity interest in a joint venture with Karamco, Inc. ("Karamco") to provide various VoIP services throughout the emerging markets. Operations of the joint venture began during 2003.

During February 2005, the Company completed its acquisition of the remaining 49.8% minority interest in Efonica from Karamco. This acquisition was completed to (a) better enable Efonica to serve as the retail VoIP services division of the Company, offering a full suite of VoIP solutions to customers in Asia, the Middle East, Africa, Latin America and the Caribbean and (b) better enable the Company to leverage the significant experience and relationships of Efonica. The operating results for the 49.8% minority interest acquired are included in the Consolidated Statement of Operations from the date of acquisition.

Under its original terms, the purchase price ranged between a minimum of $5.4 million and a maximum of $14.3 million. At closing, Karamco received cash of $500,000 and shares equal to the Base Purchase Price determined by the initial price of common stock at the date of the Company's IPO. The Base Purchase Price was equal to 49.8% of the initial estimated valuation of Karamco, or approximately $9.8 million. At the date of the IPO, approximately 1.44 million of shares were issued under this agreement, of which Karamco received approximately 765,000 shares, and approximately 676,000 shares were held in escrow. During 2005, approval was given to release the shares then being held in escrow. Consequently, the value of these shares of approximately $4.4 million was reflected as goodwill and as a long-term liability in the December 31, 2005 Consolidated Balance Sheet. In March 2006, under an amendment to the Efonica Purchase Agreement, the escrowed shares were released, subject to a lock-up period until February 15, 2007. The release of the 675,581 shares in escrow resulted in an increase to stockholders' equity of approximately $4.4 million and a reduction to the recorded long-term liability.

Of the shares issued to Karamco, the Company agreed to register for resale 150,000 shares of common stock in a registration statement. Karamco was restricted from selling in excess of $1 million worth of common stock during the one-year period following the Company's IPO Prospectus Date. If the sale of the 150,000 shares registered results in less than $1 million of gross proceeds, the Company is required to pay Karamco the difference between the aggregate gross proceeds of Karamco's sale of the registered shares and $1 million (the "Difference Payment"). Through December 31, 2006, the Company had paid Karamco $430,000 towards the Difference Payment which is reflected as capital in excess of par value in the consolidated financial statements. The remainder of the Difference Payment was paid on May 9, 2007 in the amount of $171,852.

On May 10, 2007, Mr. Roger Karam, CEO of Efonica FZ-LLC, wholly-owned subsidiary of the Company, and President of the Company's VoIP division, resigned from his position and entered into a consulting agreement with the Company. As a consultant, Mr. Karam will work with the Company's CEO to develop sales opportunities and business development opportunities. The consulting agreement is for a period of one year and will automatically renew on a three-month basis after the expiration of the initial term. The consulting agreement provides for an annual consulting fee of $250,000 and a discretionary bonus of 25% of his consulting fee, based on the achievement of certain goals as set forth in the consulting agreement.

4. Joint Ventures, Acquisitions and Divestitures - (continued)

Jamaica

In December 2004, the Company concluded an agreement to acquire 51% of the common stock of a Jamaican telecommunications company in exchange for $150,000. The company currently holds international and domestic carrier license agreements with the Jamaican government, which enable it to operate as an international carrier through 2013 and as a domestic carrier through 2018.

In October 2006, the Company received an offer to purchase certain assets and liabilities of the holdings in Jamaica. The contract associated with that offer was subsequently defaulted on, and the Company will vigorously pursue legal action associated with this default. Although the Company intends to do business in Jamaica in the future, the Company has reviewed the assets associated with that subsidiary, and as a result of the changes in the Company's business plan, the Company has impaired approximately $277,000 associated with the assets of this entity during the year ended December 31, 2006.

Turkey

On March 8, 2005, a new wholly-owned subsidiary of the Company, Fusion Turkey, LLC entered into a Stock Purchase Agreement to acquire 75% of the shares of LDTS Uzak Mesafe Telekomikasyon ve Iletism Hizmetleri San. Tic. A.S. ("LDTS"), from the existing shareholders. LDTS possesses a telecommunications license approved by the Turkish Telecom Authority.

During the fourth quarter of 2006, the Company decided to either sell, or wind down and liquidate its Turkey joint venture. This decision was a result of various challenges the Company encountered from an increasingly complicated and constantly changing regulatory environment in Turkey, which made it very difficult to enter the market. These regulatory difficulties included an unstable environment as well as the selling of Turk-Telecom, which was a government-owned entity, to a private company. As a result of this decision, certain assets of this subsidiary were considered impaired and the operations of this subsidiary are being treated as a discontinued operation. See Note 8 for further discussion.

All joint ventures identified above, excluding Estel, have been accounted for under the consolidation method of accounting as the Company maintained a majority equity ownership in the aforementioned joint ventures.

Since the Company maintains operations in foreign countries through its joint ventures, the Company may be subject to exchange control regulations or other impediments to convert foreign currencies into U.S. dollars. In addition, the Company may generate earnings, which may be unable to be repatriated outside the country in which they are earned. As of December 31, 2007, the Company's joint ventures have not generated profits that would be subject to such restrictions.

5. Goodwill and Identifiable Intangible Assets

In December 2007, based on the following impairment indicators, the Company tested goodwill and intangible assets for impairment:

- an expectation that revenue projections would not be met
- a decrease in expected future cash flows

The Company considered these impairment indicators and determined the fair value of the Company's reporting unit utilizing the discounted cash flow method, comparable company analysis, and comparable transaction analysis approach. The analysis indicated that the carrying amount of the reporting unit exceeded it fair value. Accordingly, the second step was performed. The impairment test resulted in the recognition of a non-cash impairment charge to the goodwill of approximately $4.0 million.

The Company's goodwill relates primarily to the VoIP to Consumers and Corporations reporting segment. The changes in the amount of goodwill for the years ended December 31, 2007 and 2006, are as follows:

5. Goodwill and Identifiable Intangible Assets- (continued)

	Year ended December 31	
	2007	**2006**
Beginning of year	$ 4,971,221	$ 5,118,640
Impairment of Jamaican acquisition goodwill	—	(147,419)
Impairment of Efonica retail services	(4,006,664)	—
End of year	$ 964,557	$ 4,971,221

Identifiable intangible assets, net, as of December 31, 2007, are composed of:

Trademarks	$ 4,586,558
Customer list, net of accumulated amortization of approximately $82,000	216,620
Intellectual property	89,037
	$ 4,892,215

These identifiable intangible assets were acquired in connection with the Company's purchase of the 49.8% minority interest in its Efonica joint venture. The trademarks are not subject to amortization as they have an indefinite life. Amortization on the customer list during the year ended December 31, 2007, 2006 and 2005, was $29,880, $29,880 and $22,420, respectively. The following table presents estimated amortization expense for each of the succeeding calendar years.

2008	$ 29,880
2009	29,880
2010	29,880
2011	29,880
2012	29,880
Thereafter	67,220
	$ 216,620

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31, 2007 and 2006.

	2007	**2006**
Prepaid expenses	$ 352,146	$ 440,028
Inventory	71,370	67,418
Note receivables	49,113	47,313
Other	8,927	67,448
Total	$ 481,556	$ 622,207

7. Discontinued Operations

As discussed in Note 4, the Company decided in the quarter ended September 30, 2006, to dissolve its subsidiary in Turkey. The dissolution and liquidation, or a sale of the entity, was completed during the first half of 2007. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company has classified the operating results of its Turkey joint venture as a discontinued operation in the accompanying Consolidated Financial Statements. The December 31, 2006 and 2005 consolidated financial statements have been adjusted for these discontinued operations. These discontinued operations affect only the Company's corporate and unallocated segment. The following is a summary of the operating results of the discontinued operations.

	2006	2005
Gain on settlement of domestic retail telecommunications business liabilities	$ 140,000	$ 336,910
Depreciation and amortization	(1,049)	—
Loss on impairment	(216,201)	—
Selling, general and administrative expenses	(61,794)	(120,649)
Advertising and marketing	—	(8,914)
Other	(29,827)	(340)
Income (loss) from discontinued operations	$ (168,871)	$ 207,007

Prior to 2006, the Company's discontinued operations related to Management's decision in 2001 to cease the operations of its domestic retail telecommunication services business lines. The Company continues its efforts to settle certain of these remaining liabilities. As a result of these efforts, the Company recognized gains of $0, $140,000 and $336,910 during the years ended December 31, 2007, 2006 and 2005, respectively. The remaining liability at December 31, 2007 and 2006 of approximately $16,000 and $95,000, respectively, is related to trade payables and accrued expenses associated with the discontinued retail telecommunications services.

8. Property and Equipment

At December 31, 2007 and 2006, property and equipment is comprised of the following:

	2007	2006
Network equipment, including approximately $569,000 and $1,292,000 under capital and equipment financing leases in 2007 and 2006, respectively	$ 7,131,173	$ 8,236,466
Furniture and fixtures	447,384	372,431
Computer equipment and software, including approximately $46,000 and $0 under capital and equipment financing leases in 2007 and 2006, respectively	2,252,503	1,772,267
Leasehold improvements	3,363,363	3,339,128
Assets in progress, including approximately $0 and $0 under capital and equipment financing leases in 2007 and 2006, respectively	89,180	542,377
	13,283,603	14,262,669
Less accumulated depreciation and amortization, including approximately $130,000 and $789,000 under capital and equipment financing leases in 2007 and 2006, respectively	(7,857,757)	(7,840,653)
	$ 5,425,846	$ 6,422,016

9. Restricted Cash

As of December 31, 2007 and 2006, the Company had approximately $417,000 and $782,000, 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.

In connection with the Company's discontinued operations in its Turkey joint venture (See Note 7), the Company cancelled its $325,000 letter of credit, which was used to secure a license to do business in Turkey, and received the funds back during February 2007.

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2007 and 2006:

	2007	2006
Trade accounts payable	$ 7,368,791	$ 8,778,068
Accrued expenses	1,031,350	725,287
Accrued Payroll and vacation	181,118	255,792
Cost Accrual	460,375	732,403
Interest payable	22,953	398,768
Deferred revenue	326,802	239,511
Short-term financing agreement	94,597	172,863
Other	177,339	158,420
	$ 9,663,325	$ 11,461,112

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

At December 31, 2007 and 2006, components of long-term debt and capital lease/equipment financing obligations of the Company are comprised of the following:

	2007	2006
Promissory notes payable	$ 850,000	$ 150,000
Capital lease/equipment financing obligations	244,681	1,066,746
Total long-term debt and capital lease/equipment financing obligations	1,094,681	1,216,746
Less current portion	(800,326)	(1,216,746)
	$ 294,355	$ —

11. Long-Term Debt and Capital Lease/Equipment Financing Obligations (continued)

Promissory Note Payable

During February 2004, the Company entered into a settlement agreement with a vendor for $600,000. In the same month, the Company paid $450,000 and agreed to make 12 monthly payments for the remaining $150,000. The debt has not been repaid as of December 31, 2007, as the other party to the settlement agreement has not complied with the terms of the agreement.

On December 4, 2007, December 18, 2007 and December 19, 2007, the Company borrowed an aggregate of $540,000 from two directors of the Company. The loans are evidenced by three promissory notes that are payable in 24 equal monthly installments of principal and interest (at the rate of 10% per annum) commencing January 4, 2008, January 18, 2008 and January 19, 2008; provided that the lenders have the right to demand payment of all unpaid principal and interest at any time after December 4, 2008, December 18, 2008 and December 19, 2008. The Company's obligation under the notes are collateralized by a security interest in the Company's accounts receivable. The proceeds of the loans will be used for general working capital purposes.

On Dec 21, 2007, the Company borrowed $160,000 from a director of the Company. The loan is evidenced by a non-interest bearing promissory note that is payable on January 3, 2008. The loan was paid on January 3, 2008.

Capital lease/equipment financing obligations

During 2006 and prior, the Company has entered into several financing agreements for equipment purchases. The Company has imputed an annual interest rate of 10% related to these agreements which are payable every 90 days over a 12-18 month period.

On March 6, 2007, the Company entered into an agreement with a vendor to purchase certain hardware, software and software support for approximately $251,000. The Company paid approximately $158,000 in cash and financed the remaining balance. The annual interest rate is 10% and payments are due on a monthly basis over a 10-month period.

On November 2, 2007, the Company entered into a settlement agreement with the financing company to settle its capital lease obligation for approximately $720,000 plus accrued interest of approximately $445,000. As a result of the settlement agreement, the Company paid $540,000 and recorded a gain on settlement of approximately $625,000 for the year ended December 31, 2007. See Settlements of Debt Note 15 section of Note 15 below for further discussion.

Future aggregate minimum payments on long-term debt and capital lease/equipment financing obligations in the years subsequent to December 31, 2007, are as follows:

Total minimum payments	$ 1,116,640
Less amount representing interest	(21,959)
Present value of minimum payments	1,094,681
Less current portion	(800,326)
Total long-term portion	$ 294,355

12. Income Taxes and Tax Valuation Allowance

Due to the operating losses incurred, the Company has no current income tax provision for the years ended December 31, 2007, 2006 and 2005. The provision for income taxes consists of the following:

	2007	2006	2005
Deferred			
Federal	$ (4,299,000)	$ (3,989,000)	$ 2,883,000
State	(241,000)	105,000	(277,000)
	(4,540,000)	(3,884,000)	2,606,000
Change in valuation allowance	4,540,000	3,884,000	(2,606,000)
	$ —	$ —	$ —

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

	2007	2006	2005
	%	%	%
Federal statutory rate	34.0	34.0	34.0
State, net of federal tax	2.2	0.8	2.9
Other	(1.2)	0.2	(1.9)
Change in valuation allowance	(35.0)	(35.0)	(35.0)
Effective income tax rate	—	—	—

The components of the Company's deferred tax assets and liability consist of approximately the following at December 31, 2007 and 2006, respectively:

	2007	2006
Deferred tax assets		
Net operating losses	$ 28,372,000	$ 25,047,000
Allowance for doubtful accounts	315,000	443,000
Accrued liabilities and other	625,000	167,000
Property and equipment	2,188,000	1,303,000
	31,500,000	26,960,000
Deferred tax liability		
Property and equipment		—
Deferred tax asset, net	31,500,000	26,960,000
Less valuation allowance	(31,500,000)	(26,960,000)
	$ —	$ —

The Company has available at December 31, 2007 and 2006, approximately $83,445,000 and $73,667,000, respectively, of unused net operating loss carry forwards that may be applied against future taxable income, which expire in various years from 2012 to 2027. 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.

13. Commitments and Contingencies

The Company has various non-cancelable operating lease agreements for office facilities. A summary of the lease commitments under non-cancelable leases at December 31, 2007, is approximately as follows:

Year Ending December 31:	
2008	$1,370,000
2009	1,352,000
2010	827,000
2011	659,000
2012	678,000
Thereafter	1,729,000
	$6,615,000

Rent expense for all operating leases was approximately $1,373,000, $1,538,000, and $1,309,000 for the years ended December 31, 2007, 2006 and 2005, 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.

The Company has relocated its New York executive offices and expanded its Fort Lauderdale office during 2006. The revised lease terms for both of these offices are reflected in the above lease commitment schedule.

As of December 31, 2007, the Company has outstanding purchase commitments of approximately $34,000 with an equipment vendor .

Legal Matters

On May 28, 2003, Mr. Jack Grynberg, et al., an investor in one of the Company's private offerings, filed a complaint with the Denver District Court, State of Colorado (Jack Grynberg, et al v. Fusion Telecommunications International, Inc., et al, 03-CV-3912) seeking damages in the amount of $400,000 for the purchase of an interest in Fusion's 1999 private placement offering of subordinated convertible notes through Joseph Stevens & Company, Inc., a registered broker dealer. This complaint asserted the following claims for relief against the Company: Breach of Fiduciary Duty, Civil Theft, Deceptive Trade Practices, Negligent Misrepresentation, Deceit Based on Fraud, Conversion, Exemplary Damages and Prejudgment Interest. On June 25, 2004, the Company filed with the Court a Motion to Dismiss, which was granted. The Company was awarded attorneys' fees by the court. A written order of Judgment in favor of the Company and against the plaintiff in the amount of approximately $40,000 was recorded on January 24, 2006. The plaintiffs have filed an appeal of the motion, which the courts dismissed and awarded the Company attorney fees.

On or about February 9, 2007, the Company filed a complaint against Patrick S. Dallas, InfoTel Holdings, Ltd., Phil Walton and John Does 1-5 in the Supreme Court of the State of New York (Fusion Telecommunications International, Inc. vs. Patrick S. Dallas, et al., Index No. 2007001836) seeking damages associated with Mr. Dallas' sale of Convergent Technologies Ltd. Stock to us and InfoTel's breach of its October 2006 agreement to purchase Fusion Jamaica Limited's equipment in Jamaica and assume the real property lease in Jamaica. The Company believes Mr. Dallas owns or controls InfoTel. This complaint asserted the following claims for relief: Breach of Contract (the Stock Purchase Agreement); Breach of Mr. Dallas' Employment Agreement; Breach of Mr. Dallas' Non-Solicitation and Non-Compete Agreement; Breach of Contract (the InfoTel Agreement); Diversion and Waste of Corporate Assets; Conversion: Scheme to Defraud and Deceive and Demand for Accounting; Fraudulent Misconduct with Intent to Defraud (the Stock Purchase Agreement); Fraudulent Misconduct with Intent to Defraud (the InfoTel Agreement); Indemnification (the Stock Purchase Agreement); and Indemnification (the InfoTel Agreement). The Company's legal counsel has advised that, at this state, they cannot accurately predict the likelihood of an unfavorable outcome, or quantify the amount or range of damages the Company would be entitled to receive if the Company was to prevail.

13. Commitments and Contingencies -(continued)

The Company is currently undergoing an audit by a regulatory agency which has not yet been concluded. Should the audit result in an unfavorable outcome, the Company estimates that the liability would be within the range of $14,000 to $100,000. However, the liability range is just an estimate and could differ from the actual result.

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

Due to the regulatory nature of the industry, the Company is periodically involved in various correspondence and inquiries from state and federal regulatory agencies. Management does not expect the outcome on these inquiries to have a material impact on the Company's consolidated operations or financial condition.

14. Equity Transactions

Preferred Stock

As of December 31, 2007, the Company has authorized 10,000,000 shares of its stock for the issuance of Preferred Stock. The Company has designated 1,100,000, 1,500,000 and 110,000 shares of $10 Series A Convertible Redeemable Preferred Stock ("Series A Preferred Stock"), $10 Series B Convertible Redeemable Preferred Stock ("Series B Preferred Stock") and $90 Series C Convertible Redeemable Preferred Stock ("Series C Preferred Stock") respectively. As of December 31, 2007, there were 0 shares issued and outstanding for Series A, B and C Preferred Stock.

In addition, during December 2006, the Company designated 10,000 shares of Cumulative Convertible Preferred Stock at $1,000 per share to be sold via private placement for the purpose of raising working capital for the Company's operations. If the Company sold in excess of 7,000 shares, it could exercise an over-allotment option and sell the remaining 3,000 shares. As described below, the Cumulative Convertible Preferred Stock is designated as Series A-1 Preferred Stock through Series A-4 Preferred Stock, inclusive.

In December 2006, the Company completed the first phase of the private placement, and issued a total of 3,875 shares of Preferred Stock designated Series A-1 Preferred Stock, for which approximately $3.8 million was received net of expenses of approximately $69,000, and is being used for working capital. In addition, the Company issued warrants to purchase 1,160,204 shares of common stock exercisable at $1.67 per share, which equals 50% of the shares issuable upon conversion of the Series A-1 Preferred Stock. Each share of Series A-1 Preferred Stock is entitled to dividends at rate of 8% per annum and is convertible into the Company's common stock at a fixed conversion price of $1.67 per share, which represent a 20% premium over the average price of the common stock for the three trading days prior to the closing date of the transaction.

On May 9, 2007, the Company completed the second phase of the private placement, and issued a total of 3,375 shares of Preferred Stock designated Series A-2 Preferred Stock, for which approximately $3.375 million was received net of expenses of approximately $30,000, and is being used for working capital. In addition, the Company issued warrants to purchase 2,033,151 shares of common stock exercisable at $0.83 per share, which equals 50% of the shares issuable upon conversion of Series A-2 Preferred Stock. Each share of Series A-2 Preferred Stock is entitled to dividends at a rate of 8% per annum and is convertible into the Company's common stock at a fixed conversion price of $0.83 per share, which represent a 20% premium over the average price of the common stock for the three trading days prior to the closing date of the transaction.

14. Equity Transactions (continued)

In addition, in as much as in excess of 7,000 shares of Cumulative Convertible Preferred Stock were sold, the Company exercised its over-allotment option to sell the remaining 3,000 shares, upon the same terms and conditions as set forth in the Private Placement Subscription Agreement, and accordingly, the Company extended the Offering Period up to and including June 8, 2007.

On May 9, 2007, the Company sold 700 over-allotment shares of Preferred Stock, Series A-3 for which $.7 million was received, and is being used for working capital. In addition, the Company issued warrants to purchase 421,687 shares of common stock exercisable at $0.83 per share, which equals 50% of the shares issuable upon conversion of the Series A-3 Preferred Stock. Each share of Series A-3 Preferred Stock is entitled to dividends at a rate of 8% per annum and is convertible into the Company’s common stock at a fixed price of $0.83 per share, which represent a 20% premium over the average price of the common stock for the three trading days prior to the closing date of the transaction.

On June 8, 2007, the Company sold 45 over-allotment shares of Preferred Stock, Series A-4 for which $45,000 was received, and is being used for working capital. In addition, the Company issued warrants to purchase 28,482 shares of common stock exercisable at $0.79 per share, which equals 50% of the shares issuable upon conversion of the Series A-4 Preferred Stock. Each share of Series A-4 Preferred Stock is entitled to dividends at the rate of 8% per annum and is convertible into the Company's common stock at a fixed price of $0.83 per share, which represent a 20% premium over the average price of the common stock for the three trading days prior to the closing date of the transaction.

Dividends

The holders of the Series A-1, A-2, A-3 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

In November 2007, the Company commenced a private placement for the purpose of raising working capital for the Company’s operations. The private placement provided for the sale of up to $7 million of the Company’s common stock. The Company issued 2,936,321 shares of common stock for which proceeds of approximately $1.46 million were received, net of expenses of approximately $16,000. In addition, the Company issued warrants to purchase 1,468,161 shares of common stock exercisable at 120% of the closing price of the Company’s common stock the day before closing. Also, the warrants have a term of 5 years from the date of closing.

During November 2006, $90,000 in payments due to Xtreme VoIP Corp. was paid with the issuance of 52,254 shares of common stock; as a result of certain earn outs having been met.

On March 28, 2006, the Company entered into a consulting service agreement. In connection with the agreement, the Company issued 50,000 shares of restricted common stock. Of these shares, 25,000 shares were given to the consultant upon the signing o f the agreement. The other 25,000 shares were held in escrow until the sixth (6th) month anniversary at which time 12,500 shares were released. The remaining 12,500 shares were released on August 1, 2007. In addition, the remaining expense balance of $33,125 was amortized during the year ended December 31, 2007.

As discussed further in Note 4, during March 2006, 675,581 shares of common stock held in escrow related to the acquisition of the minority interest in Efonica were released.

During March 2006, 14,286 shares of Common Stock were issued upon the exercise of a warrant to purchase the shares at a price of $0.035 per share.

14. Equity Transactions (continued)

Stock Options and Warrants

Under the Company's 1998 Stock Option Plan (the "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 i n 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, 2007 and 2006 and changes during the year then ended with regard to all options:

	Number Of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,100,798	$ 3.97		$ 488,792
Granted in 2006	852,148	$ 2.48		
Expired/cancelled in 2006	(120,400)	$ 3.59		
Outstanding at December 31, 2006	2,832,546	$ 3.54	5.72 years	-
Granted in 2007	1,204,650	$ 0.70		
Expired/cancelled in 2007	(920,520)	$ 3.56		
Outstanding at December 31, 2007	3,116,676	$ 2.43	7.10 years	$ -
Exercisable at December 31, 2007	1,631,109	$ 3.44	5.46 years	$ -

Exercise Prices	Number of options	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.35-$0.68	18,000	9.89 years	$ 0.40	-	$ _
$0.69-$0.69	1,089,550	7.95 years	$ 0.69	200,000	$ 0.69
$0.75-$2.46	854,770	6.35 years	$ 2.27	471,288	$ 2.41
$2.65-$4.38	935,283	6.78 years	$ 3.74	740,748	$ 3.98
$4.40-$6.45	219,073	6.94 years	$ 6.32	219,073	$ 6.32
	3,116,676			1,631,109	

The weighted-average estimated fair value of stock options granted was $0.70, $2.48, and $3.97 during the years ended December 31, 2007, 2006 and 2005 respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2007, 2006 and 2005 was $0, $0, and $97,502 As of December 31, 2007, there was approximately $416,000 of total unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under our stock incentive plans which is expected to be recognized over a weighted-average period of 2.13 years.

14. Equity TRANSACTIONS (continued)

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 2007, 2006 and 2005:

	Number of Warrants	Per Share Warrant Price	Weighted Average Warrant Price
Shares under warrants at January 1, 2005	286,578	$ 0.04-8.75	$ 3.61
Issued in 2005	7,641,838	6.45	6.45
Exercised in 2005	(28,572)	2.98	2.98
Expired in 2005	(77,409)	2.98-8.75	4.15
Shares under warrants at December 31, 2005	7,822,435	0.04-6.45	6.37
Issued in 2006	1,160,204	1.67	1.67
Exercised in 2006	(14,286)	0.04	0.04
Expired in 2006	(19,644)	2.98-3.50	3.36
Shares under warrants at December 31, 2006	8,948,709	1.67-3.57	5.75
Issued in 2007	3,951,481	0.48-1.67	0.75
Exercised in 2007	-	-	-
Expired in 2007	-	-	-
Shares under warrants at December 31, 2007	12,900,190	$ 0.48-8.58	$ 5.50

All warrants are fully exercisable upon issuance other than the initial public offering (IPO) warrants, which could not be exercised until the first anniversary of the date of the IPO.

15. Settlements of Debt

On March 30, 2006, a financing company affiliated with an equipment vendor filed a complaint with the Circuit Court in Broward County, State of Florida seeking damages in the amount of approximately $1,380,000 allegedly due on two promissory notes plus accrued interest through March 1, 2006 and attorney's fees and costs. The Company asserted a counterclaim against the vendor which was settled March 2007, resulting in the amendment of an existing contract with the vendor. On November 2, 2007, the Company entered into a settlement agreement with the financing company for $540,000 payable within 30 days from the date of the settlement agreement. As a result of the settlement agreement, the Company recorded a gain on settlement of approximately $619,000.

During 2006, the Company recognized a gain on settlement of debt of approximately $466,000. This was related to an agreement that the Company had previously entered into in 2003 with a vendor. The provisions of the original agreement provided that $555,000 due to the vendor would be resolved with a service agreement whereby the vendor received a reduced rate for services purchased from the Company through December 2005. The Company and the vendor continued to comply with the terms of this agreement until it was settled as discussed below. Since the inception of the settlement agreement, approximately $89,000 of the deferred revenue was recognized in connection with this service agreement. During June 2006, the service agreement was cancelled and the vendor released the Company of all remaining indebtedness under the December 2003 settlement agreement. Consequently, the remaining deferred revenue balance of approximately $466,000 was recorded as a gain on settlement of debt.

During the year ended December 31, 2005, the Company recognized both gains and a loss on debt settlements. The net of these settlements was a loss of approximately $76,000. The two significant settlements comprising this balance relates to a loss on settlement of debt of approximately $134,000 related to an international venture the Company was involved with during prior years. In addition, the Company entered into a settlement agreement with a vendor, which resulted in forgiveness of debt of approximately $43,000.

16. 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, 2007, 2006 and 2005.

17. Related Party Transactions

During October 2007, the Company borrowed $400,000 from two members of its Board of Directors, which was repaid on November 2, 2007. Interest was paid based upon an 10% per annum interest rate.

During 2007, the Company received $120,000 from the members of its Board of Directors associated with the private placement for Preferred Stock A-2 (See Note 14).

During 2007, the Company received $100,000 from the members of its Board of Directors associated with the private placement for the Company's Common Stock (See Note 14).

During 2006, the Company borrowed $100,000 from a stockholder of the Company, which was repaid on December 1, 2006. Interest was paid based upon an 8% annum interest rate.

During 2006, the Company entered into a promissory note agreement with a relative of an executive officer of the Company for the purpose of initiating operations in a foreign country. The promissory note is for $29,177, which is payable to the Company on demand.

During 2006, the Company received $655,000 from the members of its Board of Directors associated with the private placement for Preferred Stock, Series A-1 (See Note 14).

18. Concentrations

Major Customers

During 2007, five customers of the Company accounted for revenues exceeding 70% in total and at least 5% individually of the Company's total revenues for 2007. During 2006, three customers of the Company accounted for revenues exceeding 46% in total and at least 5% individually of the Company's total revenues for 2006. During 2005, six customers of the Company accounted for revenues exceeding 53% in total and at least 5% individually of the Company's total revenues for 2005. These customer revenues were all in the traditional voice and VoIP to carrier segments. Revenues earned from these customers were approximately $38,664,000 in 2007, $21,665,000 in 2006 and $26,051,000 in 2005. At December 31, 2007, 2006 and 2005, the amounts owed to the Company by these customers were approximately $4,330,000, $4,398,000 and $1,951,000, 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 2007, 2006 and 2005, the Company generated approximate revenue from continuing operations from customers in the following countries:

	2007	2006	2005
United States	$ 50,220,000	$ 42,559,000	$ 44,166,000
Other	4,804,000	4,528,000	5,199,000
	$ 55,024,000	$ 47,087,000	$ 49,365,000

At December 31, 2007 and 2006, the Company had foreign long-lived assets in foreign countries as follows:

	2007	2006
Jamaica	$ 129,000	$ 129,000

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.

19. Segment Information

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

The Company has two reportable segments that it operates and manages which are organized by products and services. The Company measures and evaluates its reportable segments based on revenues and cost of revenues. This segment income excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that the 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:

Voice to Carriers

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

Consumers, Corporations and Other

The Company provides VoIP services targeted to end-users and corporations, primarily through its Efonica brand. The Company offers services that permit consumers or corporations to originate calls via IP telephones or telephone systems that use the Internet for completion to standard telephone lines anywhere in the world. It provides PC-to-phone service that utilizes the Internet to allow consumers to use their personal computers to place calls to the telephone of their destination party. Additionally, the Company provides Internet connectivity to telecommunications carriers, Internet service providers, government entities, and multinational customers via its POPs in the U.S. and India, and through its partners elsewhere. The Company also offers point-to-point private lines, virtual private networking, and call center communications services to customers in its target markets.

19. Segment Information -(Continued)

Operating segment information for 2007 and 2006 is summarized as follows:

	2007			
	Voice to Carriers	Consumers Corporations and Other	Corporate & Unallocated	Consolidated
Revenues	$ 53,425,504	$ 1,598,356	$ —	$ 55,023,860
Cost of revenues (exclusive of depreciation and amortization)	$ (49,530,808)	$ (1,266,546)	$ —	$ (50,797,354)
Depreciation and amortization	$ (1,345,979)	$ (362,652)	$ (409)	$ (1,709,040)
Loss on impairment of goodwill and other long-lived assets	$ —	$ (4,006,664)	$ —	$ (4,006,664)
Selling, general and administrative	$ (7,889,279)	$ (4,489,909)	$ (105,297)	$ (12,484,485)
Advertising and marketing	$ (34,781)	$ (111,690)	$ —	$ (146,471)
Other income (expenses)	$ 1,221,407	$ 230,477	$ —	$ 1,451,884
Loss from continuing operations	$ (4,153,936)	$ (8,408,628)	$ (105,706)	$ (12,668,270)
Net loss	$ (4,153,936)	$ (8,408,628)	$ (105,706)	$ (12,668,270)
Total assets	$ 9,621,853	$ 8,406,686	$ 99,750	$ 18,128,289
Capital expenditures	$ 395,381	$ 578,471	$ 6,842	$ 980,694

	2006			
	Voice to Carriers	Consumers, Corporations and Other	Corporate & Unallocated	Consolidated
Revenues	$ 43,646,206	$ 3,440,858	$ —	$ 47,087,064
Cost of revenues (exclusive of depreciation and amortization)	$ (40,024,199)	$ (2,439,525)	$ —	$ (42,463,724)
Depreciation and amortization	$ (1,230,331)	$ (166,763)	$ —	$ (1,397,094)
Loss on impairment of goodwill and other long-lived assets	$ —	$ (867,212)	$ —	$ (867,212)
Selling, general and administrative	$ (8,557,961)	$ (5,908,256)	$ (336,845)	$ (14,803,062)
Advertising and marketing	$ (73,530)	$ (1,262,215)	$ —	$ (1,335,745)
Other income (expenses)	$ 311,586	$ 285,856	$ —	$ 597,442
Loss from continuing operations	$ (5,928,229)	$ (6,917,257)	$ (336,845)	$ (13,182,331)
Income (loss) from discontinued operations	$ 84,000	$ (252,871)	$ —	$ (168,871)
Net loss	$ (5,844,229)	$ (7,170,128)	$ (336,845)	$ (13,351,202)
Total assets	$ 11,664,585	$ 13,129,701	$ 2,779,014	$ 27,573,300
Capital expenditures	$ 983,700	$ 2,315,498	$ —	$ 3,299,198

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

20. Subsequent Events

On January 24, 2008, the Company entered into subscription agreements with ten (10) individual investors for an offering of $535,000 in consideration for 2,140,000 shares of Common Stock. In addition, the Company issued five year warrants to purchase 1,070,000 shares of common stock exercisable at $.30 per share, which was equal to 120% of the closing price of the Company's Common Stock the day before Closing.

Also, on January 29, 2008, the Company entered into a subscription agreements with four (4) individual investors for an offering of $120,000 in consideration for 480,000 shares of Common Stock. In addition, the Company issued five year warrants to purchase 240,000 shares of common stock exercisable at $.30 per share, which was equal to 120% of the closing price of the Company's Common Stock the day before Closing.

On February 20, 2008, the Company entered into subscription agreements with four (4) individual investors for an offering of $583,000 in consideration for 1,714,708 shares of Common Stock. In addition, the Company issued five year warrants to purchase 857,355 shares of common stock exercisable at $0.41 per share, which was equal to 120% of the closing price of the Company's Common Stock the day before Closing.

Also, on February 21, 2008, the Company entered into subscription agreements with one (1) individual investor for an offering of $50,000 in consideration for 131,579 shares of Common Stock. In addition, the Company issued five year warrants to purchase 65,790 shares of common stock exercisable at $0.46 per share, which was equal to 120% of the closing price of the Company's Common Stock the day before Closing.

On March 18, 2008, the Company entered into subscription agreements with one (1) individual investor for an offering of $500,000 in consideration for 1,388,889 shares of Common Stock. In addition, the Company issued five year warrants to purchase 694,445 shares of common stock exercisable at $0.43 per share, which was equal to 120% of the closing price of the Company's Common Stock the day before Closing.

21. Selected Quarterly Results (Unaudited)

	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 13,205,954	$ 13,744,209	$ 13,356,679	$ 14,717,018
Operating loss	$ (2,781,583)	$ (2,719,044)	$ (2,368,174)	$ (6,251,353)
Interest income	$ 20,710	$ 30,356	$ 17,180	$ 3,704
Interest expense	$ (23,148)	$ (27,830)	$ (27,573)	$ (10,442)
Gain on settlements of debt	$ —	$ —	$ —	$ 618,885
Gain from sale of investment in Estel	$ —	$ 937,578	$ —	$ —
Net loss	$ (2,829,021)	$ (1,780,439)	$ (2,370,988)	$ (5,687,822)
Basic and diluted net loss per common share applicable to common stockholders	$ (0.10)	$ (0.07)	$ (0.09)	$ (0.22)

	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,522,158	$ 10,543,112	$ 11,728,524	$ 15,293,270
Operating loss	$ (2,990,639)	$ (3,349,123)	$ (3,755,453)	$ (3,684,558)
Interest income	$ 133,461	$ 102,117	$ 58,694	$ 24,061
Interest expense	$ (30,000)	$ (29,514)	$ (30,972)	$ (23,520)
Gain on settlements of debt	$ —	$ 465,854	$ —	$ —
Net loss	$ (2,954,060)	$ (2,801,691)	$ (3,926,049)	$ (3,669,402)
Basic and diluted net loss per common share applicable to common stockholders	$ (0.11)	$ (0.10)	$ (0.15)	$ (0.14)

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Expense	Deductions from Reserves	Balance at End of Year
Allowance for Doubtful Accounts for the Years Ended:				
December 31, 2007	$ 1,108,333	$ 175,483	$ 453,582	$ 830,234
December 31, 2006(1)	$ 1,247,535	$ 404,750	$ 543,952	$ 1,108,333
December 31, 2005(1)	$ 1,058,414	$ 350,434	$ 161,313	$ 1,247,535
Tax Valuation Account for the Years Ended:				
December 31, 2007	$ 26,960,000	$ 4,540,000	$	$ 31,500,000
December 31, 2006	$ 23,076,000	$ 3,884,000	$ —	$ 26,960,000
December 31, 2005	$ 25,682,000	$ —	$ 2,606,000	$ 23,076,000

(1) Additions charged to expense and balance at end of year includes amounts associated with the Company’s equity investment in Estel during that period. This allowance is net against the liability balance that is included in Investment in Estel on the Company’s Consolidated Balance Sheets.

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, 2007 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 made, not misleading with respect to the period covered by this report;

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

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

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

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

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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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 our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

March 31, 2008

By: /s/ Matthew D. Rosen

Matthew D. Rosen, Chief Executive Officer

Exhibit 31.2

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

I, Barbara Hughes, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2007 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 made, not misleading with respect to the period covered by this report;

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

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

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

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

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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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 our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

March 31, 2008

By: /s/ Barbara Hughes

Barbara Hughes, Chief Executive 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, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Matthew D. Rosen, Chief Executive Officer and President 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.

March 31, 2008

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, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Barbara Hughes, Chief Financial Officer and Vice President Finance 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.

March 31, 2008

By: /s/ Barbara Hughes

Barbara Hughes, Chief Financial Officer

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