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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2012**

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

For the transition period from _____ to _____

Commission File Number: 001-32421

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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
(Registrants telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ☑ **No** ☐

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: August 13, 2012.

Title Of Each Class	**Number of Shares Outstanding**
Common Stock, $0.01 par value	166,432,351

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Condensed Consolidated Balance Sheets

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 798,167	$ 3,047
Accounts receivable, net of allowance for doubtful accounts of approximately $276,000 and $245,000, respectively	1,499,313	2,400,427
Prepaid expenses and other current assets	529,970	388,343
Total current assets	2,827,450	2,791,817
Property and equipment, net	781,927	831,402
Other assets:		
Security deposits	437,141	437,141
Restricted cash	302,681	299,536
Intangible assets, net	107,474	165,578
Other assets	32,901	31,494
Total other assets	880,197	933,749
TOTAL ASSETS	$ 4,489,574	$ 4,556,968
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Promissory notes payable - non-related parties	$ 468,966	$ 292,039
Promissory notes payable - related parties	4,898,364	4,922,364
Escrow payable	775,000	-
Accounts payable and accrued expenses	9,164,031	9,448,981
Current liabilities from discontinued operations	96,345	97,835
Total current liabilities	15,402,706	14,761,219
Long-term liabilities:		
Other long-term liabilities	327,732	380,243
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 5,045 shares issued and outstanding	50	50
Common stock, $0.01 par value, 300,000,000 shares authorized, 166,432,351 and 153,711,350 shares issued and outstanding	1,664,322	1,537,113
Capital in excess of par value	138,562,459	137,325,467
Accumulated deficit	(151,467,695)	(149,447,124)
Total stockholders' deficit	(11,240,864)	(10,584,494)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,489,574	$ 4,556,968

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues	$ 10,219,436	$ 10,643,036	$ 21,754,140	$ 20,847,316
Cost of revenues, exclusive of depreciation and amortization, shown separately below	8,963,789	9,655,765	19,008,549	18,801,395
Gross profit	1,255,647	987,271	2,745,591	2,045,921
Depreciation and amortization	93,954	148,530	192,177	317,068
Selling general and administrative expenses (including $54,486 and $9,705 of stock-based compensation for the three months ended June 30, 2012 and 2011, respectively and $61,482 and $33,387 of stock-based compensation for the six months ended June 30, 2012 and 2011, respectively	2,256,676	2,005,991	4,301,493	4,166,744
Advertising and marketing	1,709	819	8,033	5,382
Total operating expenses	2,352,339	2,155,340	4,501,703	4,489,194
Operating loss	(1,096,692)	(1,168,069)	(1,756,112)	(2,443,273)
Other (expenses) income:				
Interest expense, net of interest income	(46,534)	(55,725)	(103,616)	(104,012)
Other	(91,394)	21,134	(160,843)	109,829
Total other (expenses) income	(137,928)	(34,591)	(264,459)	5,817
Loss from continuing operations	(1,234,620)	(1,202,660)	(2,020,571)	(2,437,456)
Discontinued operations:				
Income from discontinued operations	-	152	-	8,364
Net loss	$ (1,234,620)	$ (1,202,508)	$ (2,020,571)	$ (2,429,092)
Loss applicable to common stockholders:				
Loss from continuing operations	$ (1,234,620)	$ (1,202,660)	$ (2,020,571)	$ (2,437,456)
Preferred stock dividends in arrears	(100,349)	(122,816)	(200,698)	(266,717)
Net loss from continuing operations applicable to common stockholders:	(1,334,969)	(1,325,476)	(2,221,269)	(2,704,173)
Income from discontinued operations	-	152	-	8,364
Net loss applicable to common stockholders:	$ (1,334,969)	$ (1,325,324)	$ (2,221,269)	$ (2,695,809)
Basic and diluted loss per common share:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Loss from discontinued operations	-	0.00	-	0.00
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Weighted average common shares outstanding:				
Basic and diluted	165,875,657	139,666,939	162,932,029	136,151,459

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	$ (2,020,571)	$ (2,429,092)
Income from discontinued operations	-	(8,364)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	192,177	317,068
Loss on sale of accounts receivable	168,814	-
Bad debt expense	63,273	95,783
Stock-based compensation	61,482	33,387
Settlement of vendor liabilities	-	(75,000)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	528,647	(147,983)
Prepaid expenses and other current assets	(1,247)	(22,834)
Other assets	(1,408)	2,671
Payments of security deposits	-	(1,250)
Accounts payable and accrued expenses	(257,245)	144,338
Other long-term liabilities	(52,511)	(8,746)
Net cash used in operating activities	(1,318,589)	(2,100,022)
Cash flows from investing activities:		
Purchase of property and equipment	(77,303)	(35,746)
Increase in restricted cash	(3,145)	-
Net cash used in investing activities	(80,448)	(35,746)
Cash flows from financing activities:		
Proceeds from the sale of common stock and warrants, net	1,142,720	484,080
Proceeds from notes payable - related parties	161,000	1,975,740
Proceeds from notes payable - non-related parties	300,000	-
Payments on capital lease/equipment financing obligations	-	(2,587)
Proceeds from the sale of equity securities not yet issued	775,000	-
Repayments of notes payable - related parties	(60,000)	(95,000)
Repayments of notes payable - non-related parties	(123,073)	(182,893)
Net cash provided by financing activities	2,195,647	2,179,340
Net increase in cash and cash equivalents from continuing operations	796,610	43,572
Cash flows from discontinued operations:		
Net cash used in operating activities of discontinued operations	(1,490)	(38,390)
Net change in cash and cash equivalents:	795,120	5,182
Cash and cash equivalents, beginning of period	3,047	20,370
Cash and cash equivalents, end of period	$ 798,167	$ 25,552
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 17,011	$ 19,421
Supplemental schedule of non-cash financing activities:		
Conversion of notes payable - related parties to common stock	$ 125,000	$ 195,000
Conversion of accounts payable - related parties to common stock	$ 35,000	$ -
Conversion of notes and interest payable - nonrelated parties to common stock	$ -	$ 253,311
Preferred stock converted into common stock	$ -	$ 2,500,000

See accompanying notes to the Condensed Consolidated Interim Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

The accompanying notes to the unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated finanical statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for Fusion Telecommunications International, Inc. and its Subsidiaries (collectively, the "Company"). All material intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission (the "SEC") and therefore omit or condense certain footnotes and other information normally included in condensed consolidated interim financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of the Company's management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the condensed consolidated interim financial statements have been made. The results of operations for an interim period are not necessarily indicative of the results for the entire year.

During the six months ended June 30, 2012 and 2011, comprehensive loss was equal to the net loss amounts presented for the respective periods in the accompanying condensed consolidated interim statements of operations. In addition, certain prior year balances have been reclassified to conform to the current presentation.

Cash and cash equivalents

Cash and cash equivalents includes funds held in escrow in connection with the Company's private placement efforts for the sale of its equity securities. A corresponding liability is recorded for the Company's obligation to issue equity securities, which amounted to $0.8 million as of June 30, 2012.

Income taxes

The Company complies with accounting and reporting requirements with respect to accounting for income taxes, which require an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. In accordance with U.S. GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Derecognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce net assets. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of June 30, 2012 and December 31, 2011. The Company is subject to income tax examinations by major taxing authorities for all tax years since 2008 and may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. No interest expense or penalties have been recognized as of June 30, 2012 and December 31, 2011. During the six month periods ended June 30, 2012 and 2011, the Company recognized no adjustments for uncertain tax positions.

Loss per share

The Company complies with the accounting and disclosure requirements regarding earnings per share. Basic loss per share excludes dilution and is computed by dividing loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company. The following securities were excluded in the calculation of diluted loss per share as of June 30, 2012 and 2011 because their inclusion would be antidilutive:

	2012	2011
Warrants	51,372,711	43,668,191
Stock options	6,548,261	5,286,174
Convertible preferred stock	7,206,168	6,834,314
	65,127,140	55,788,679

The net loss per common share calculation includes a provision for preferred stock dividends in the approximate amount of $100,000 and $123,000 for the three months ended June 30, 2012 and 2011, respectively, and approximately $201,000 and $267,000 for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the Board of Directors had not declared any dividends on the Company's preferred stock, and the Company had accumulated approximately $2,924,000 of preferred stock dividends.

Sale of accounts receivable

The Company is party to an agreement, entered into in September of 2011, whereby it can sell certain of its accounts receivable at a discount in order to enhance the Company's liquidity and cash flow. The Company recognizes a loss on the sale of accounts receivable for the amount of the discount at the time the receivables are sold and derecognizes the applicable receivables from its consolidated balance sheet, as the Company has determined that the transfer of accounts receivable to the counterparty under this agreement meets the criteria for a sale of financial assets. For the three and six months ended June 30, 2012 the Company recognized a loss on the sale of accounts receivable of approximately $94,000 and $169,000, respectively, and approximately $1.5 million and $1.0 million of the Company's outstanding accounts receivable had been sold as of June 30, 2012 and December 31, 2011, respectively.

Stock–based compensation

The Company accounts for stock-based compensation by recognizing the fair value of the compensation cost for all stock awards over their respective service periods, which are generally equal to the vesting period. This compensation cost is determined using option pricing models intended to estimate the fair value of the awards at the date of grant using the Black-Scholes option-pricing model. An offsetting increase to stockholders' equity is recorded equal to the amount of the compensation expense charge.

Stock-based compensation expense recognized in the condensed consolidated interim statements of operations for the three months and six months ended June 30, 2012 and 2011 includes compensation expense for stock-based payment awards granted prior to June 30, 2012 but not yet vested, based on the estimated grant date fair value. As stock-based compensation expense recognized in the condensed consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. When estimating forfeitures, the Company considers historical forfeiture rates as well as ongoing trends for actual option forfeiture.

The impact of stock-based compensation expense on the Company's results of continuing operations was approximately $54,000 and $10,000 for the three months ended June 30, 2012 and 2011, respectively, and approximately $61,000 and $33,000 for the six months ended June 30, 2012 and 2011, respectively. These amounts are included in selling, general, and administrative expenses in the condensed consolidated interim statements of operations.

The following table summarizes the stock option activity for the six months ended June 30, 2012:

Activity	(unaudited) Number of Options		Weighted Average Exercise Price
Outstanding at December 31, 2011	6,634,261	$	0.75
Granted	49,500	$	0.10
Cancelled or expired	(135,500)	$	0.16
Outstanding at June 30, 2012	6,548,261	$	0.75
Exercisable at June 30, 2012	4,533,430	$	1.04

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

	(unaudited) Six Months Ended June 30,	
	2012	2011
Dividend yield	0.00%	0.00%
Stock volatility	111.2-148.7%	138.1-179.7%
Average Risk-free interest rate	0.28%	1.93-2.46%
Average option term (years)	4	4

As of June 30, 2012, there was approximately $107,000 of total unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under the Company's Stock Incentive Plans, which is expected to be recognized over a weighted-average period of 2.06 years.

Fair value of financial instruments

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

Use of estimates

The preparation of condensed consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period. Actual results could be affected by the accuracy of those estimates.

Restricted cash

At June 30, 2012 and December 31, 2011 the Company had approximately $303,000 and $300,000, respectively, of cash restricted from withdrawal and held by a bank as a certificate of deposit securing a letter of credit. This restricted cash is required as a security deposit under one of the Company's non-cancelable operating leases for office facilities.

2. Going Concern

At June 30 2012, the Company had a working capital deficit of $12.6 million and an accumulated deficit of $151.5 million. The Company has continued to sustain losses from operations and has not generated positive cash flow from operations since inception. Management is aware that its current cash resources are not adequate to fund its operations for the remainder of the year. During the six months ended June 30, 2012, the Company raised approximately $1.1 million, net of expenses, from the sale of the Company's equity securities. The Company cannot provide any assurances if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company's ability to continue operations as a going concern. No adjustment has been made in the condensed consolidated interim financial statements to the amounts and classification of assets and liabilities which could result should the Company be unable to continue as a going concern.

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012 (unaudited)	December 31, 2011
Prepaid insurance	$ 80,031	$ 47,562
Due from purchaser of accounts receivable	401,817	261,437
Other prepaid expenses	48,122	79,344
Total	$ 529,970	$ 388,343

4. Discontinued Operations

In order to streamline operations, reduce expenses and focus on the development of the Company's Corporate Services and Carrier Services segments, the Company eliminated its consumer services business and restructured its overall operations in 2009, and the Company classifies the operating results of its consumer services segment as a discontinued operation in the accompanying condensed consolidated interim financial statements. The Company had no remaining assets related to the discontinued consumer segment at June 30, 2012 and December 31, 2011, and had liabilities from discontinued operations of approximately $96,000 and $98,000 at June 30, 2012 and December 31, 2011, respectively, which consist primarily of accounts payable and accrued expenses. The Company had no revenues or expenses from discontinued operations in the three and six months ended June 30, 2012 and had income from discontinued operations of approximately nil, and $8,000, respectively, in the three and six months ended June 30, 2011, consisting primarily of bad debt recoveries.

5. Intangible Assets

Identifiable intangible assets as of June 30, 2012 and December 31, 2011 are comprised of:

	June 30, 2012 (unaudited)			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Trademarks	$ 315,745	$ (263,812)	$ 51,933	$ 315,745	$ (211,879)	$ 103,866
Intellectual Property	86,397	(30,856)	$ 55,541	86,397	(24,685)	$ 61,712
Total	$ 402,142	$ (294,668)	$ 107,474	$ 402,142	$ (236,564)	$ 165,578

Amortization expense was $29,052 and $19,815 for the three months ended June 30, 2012 and 2011, respectively, and $58,104 and $40,148 for the six months ended June 30, 2012 and 2011, respectively. Estimated future aggregate amortization expense is as follows for the periods indicated:

Remaining six months ending December 31,	2012	$ 58,103
Year ending December 31:	2013	12,343
	2014	12,343
	2015	12,343
	2016	12,342

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012 (unaudited)	December 31, 2011
Trade accounts payable	$ 7,536,975	$ 8,061,024
Accrued expenses	471,899	468,214
Accrued payroll and vacation	95,425	110,829
Cost accrual	203,039	2,815
Interest payable	463,842	376,506
Deferred revenue	19,357	10,044
Other	373,494	419,549
	$ 9,164,031	$ 9,448,981

7. Notes Payable

At June 30, 2012 and December 31, 2011, components of the Company's notes payable are comprised of the following:

	June 30, 2012 (unaudited)	December 31, 2011
Promissory notes payable - related parties	$ 4,898,364	$ 4,922,364
Promissory notes payable - non-related parties	468,966	292,039
Total promissory notes payable	5,367,330	5,214,403
Less:		
Current portion of notes payable - related parties	(4,898,364)	(4,922,364)
Current portion of notes payable - non-related parties	(468,966)	(292,039)
Non-current portion of promissory notes payable	$ -	$ -

Promissory notes payable – related parties

Promissory notes payable – related parties at June 30, 2012 and December 31, 2011 consist of notes payable to Marvin Rosen, the Company's Chairman of the Board of Directors, and to an affiliate of Mr. Rosen. These notes bear interest at rates ranging from 3% to 10% per annum. All of the promissory notes grant the lender a subordinated security interest, pari passu with other lenders, in the Company's accounts receivable and are payable in full upon ten days' notice from the lender. To date, the Company has not received a demand for payment.

During the six months ended June 30, 2012, Mr. Rosen converted $125,000 of previously issued loans evidenced by promissory notes into 925,927 shares of the Company's common stock and five-year warrants to purchase 277,779 shares of common stock. The warrants are exercisable at approximately 112% of the average closing price of the Company's common stock for the five trading days prior to the conversion. Also during the six months ended June 30, 2012, the Company received $161,000 of new loans from Mr. Rosen, $60,000 of which was repaid during the period. The new loans are evidenced by four promissory notes bearing interest at a rate of 3% per annum. The notes grant the lender a subordinated security interest, pari passu with other lenders, in the Company's accounts receivable and are payable in full upon ten days' notice from the lender. As of June 30, 2012, the Company had an aggregate principal amount of outstanding demand notes payable to Mr. Rosen and his affiliates in the amount of $4,898,364.

Promissory notes payable – non-related parties

On September 19, 2011, the Company received an advance of approximately $208,000 from the purchaser of its accounts receivable in connection with the agreement for the sale of certain of the Company's accounts receivable. At December 31, 2011, the outstanding balance on this advance was $103,073, which was paid in full during the six months ended June 30, 2012. The Company's accounts receivable continue to be secured by a first priority lien in favor of the purchaser.

On October 27, 2011, the landlord over premises leased by the Company exercised its right under the lease to draw down the full amount of a letter of credit in the approximate amount of $429,000 that the Company had posted as security under the terms of the lease. The letter of credit was issued for the benefit of the Company by a third party lending institution and the Company had partially collateralized the letter of credit in the approximate amount of $240,000 by depositing this amount in a money market account with the lending institution. As a result of the drawdown of the letter of credit, the Company is required to pay the issuer of the letter of credit the difference between the full amount of the letter of credit and the amount of the collateral, which difference is approximately $189,000 as of December 31, 2011.

On April 6, 2012, the Company and the lending institution entered into a forbearance and settlement agreement which, among other things, set forth payment terms for the outstanding amount due to the lender. Under the terms of the forbearance and settlement agreement, which provides for interest on the outstanding amount at the rate of 5.25% per annum, the lender agreed to forbear from exercising its rights and remedies under the letter of credit agreement until July 27, 2013, and the Company is required to make principal payments in the amount of $5,000 per month plus accrued interest from March 27, 2012 through August 27, 2012, $50,000 plus accrued interest on each of September 27, 2012, December 27, 2012 and March 27, 2013 and approximately $9,000 on June 27, 2013. In the event the Company fails to comply with the forbearance and settlement agreement, as and when required thereunder, the lender may enforce the rights and remedies provided to it under the provisions of the original letter of credit agreement, and may enforce a confession of judgment for the entire amount due under the forbearance and settlement agreement, plus a $2,500 forbearance fee and payment of the lender's partial attorney fees, which are payable on July 27, 2013. The forbearance and settlement agreement also contains covenants limiting the Company's ability to, among other things and with certain exceptions, incur additional debt, grant additional security interests and/or grant confessions of judgment to third parties. As of June 30, 2012, the outstanding balance due under the forbearance agreement was $168,966 and is reflected in Promissory notes payable – non-related parties in the Company's consolidated balance sheet.

On June 22, 2012, the Company received a loan of $300,000 from a third party lending institution. The loan bears interest at a rate of 3.25% per annum and was set to mature on August 6, 2012. The term of the loan has since been extended such that it is currently set to mature on August 20, 2012. The proceeds from the loan were used for general corporate purposes and to repay $60,000 of indebtedness to Marvin Rosen. Repayment of the loan is guaranteed by Mr. Rosen.

8. Equity Transactions

From time to time during the first six months of 2012, the Company entered into subscription agreements with 29 accredited investors, under which the Company issued an aggregate of 10,762,717 shares of common stock and five-year warrants to purchase 3,339,940 shares of the Company's common stock for aggregate consideration of $1.1 million. The warrants are exercisable at 112%-125% of the average closing price of the Company's common stock for the five trading days prior to closing.

During 2011, the Company reclassified $80,000 from escrow payable to paid- in capital for equity consideration received prior to 2011 but for which shares had not been issued. These shares were issued during the first six months of 2012 following approval of the Company's Board of Directors, whereupon the Company issued a total of 587,912 shares of common stock and warrants to purchase 117,583 shares of common stock.

During the first six months of 2012, two of the Company's executive officers converted an aggregate of $35,000 owed to them by the Company into 444,445 shares of common stock and five-year warrants to purchase 133,335 shares of common stock. The warrants are exercisable at approximately 112% of the average closing price of the Company's common stock for the five trading days prior to the conversion.

As of June 30, 2012, the Company is authorized to issue 300,000,000 shares of common stock, and there were 166,432,351 shares of common stock issued and outstanding.

9. Recently Adopted and Issued Accounting Pronouncements

During the six months ended June 30, 2012 and 2011, there were no new accounting pronouncements adopted by the Company that had a material impact on the Company's consolidated financial statements. Management does not believe there are any recently issued, but not yet effective, accounting pronouncements, if currently adopted, that would have a material effect on the Company's consolidated financial statements.

10. Commitments and Contingencies

Legal Matters

On February 16, 2012, a landlord over premises leased by the Company commenced a proceeding in the New York City Civil Court, County of New York (Index No. 56186/12), in which the landlord sought to recover against the Company certain unpaid rent and related charges due under a lease agreement between the landlord and the Company, and to evict the Company from the premises. By Stipulation dated April 19, 2012, the landlord and the Company agreed that the landlord would be entitled to a judgment in the amount of $222,510 and a warrant of eviction, but that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the Stipulation. To date, the Company has complied with all of its payment obligations under the Stipulation and the accompanying consolidated financial statements fully reflect the amounts owed to the landlord by the Company as of the date of the financial statements.

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

Other Matters

On January 30, 2012, the Company entered into purchase agreements to acquire the business currently operated by Network Billing Systems, LLC and Interconnect Services Group II LLC (collectively, "NBS"). NBS currently provides voice (including VoIP) and data telecommunications services, as well as a wide variety of managed and cloud-based telecommunications services, to small and medium sized companies.

The aggregate purchase price for the NBS acquisition transaction is $20 million, consisting of $17.75 million in cash, $1.0 million to be evidenced by a 24-month promissory note payable to the sellers and $1.25 million in shares of restricted common stock of the Company. Consummation of the transaction contemplated by the purchase agreements is subject to the satisfaction of certain conditions precedent, including, but not limited to, satisfactory completion of the Company's due diligence on the acquired business, completion of an audit of the financial books and records of the acquired business, receipt of certain regulatory approvals, the Company's receipt of sufficient funding to pay the cash portion of the purchase price and provide for reasonable post-acquisition working capital requirements, negotiation and execution of mutually acceptable executive employment and non-compete agreements with the principal operating officer of NBS, and other customary conditions of closing. While the agreements, as amended on June 7, 2012, contemplate that closing of the acquisition of NBS will take place during the third quarter of 2012, the conditions precedent to closing are such that there can be no assurance that the acquisition will be completed in that time or at all.

11. Segment Information

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

The Company has two reportable segments that it operates and manages – corporate services and carrier services. These segments are organized by the products and services that are sold and the customers that are served. The Company measures and evaluates its reportable segments based on revenues and gross profit margins. The Company's executive, administrative and support costs are allocated to the Company's operating segments and are included in segment income. The Company's segments and their principal activities consist of the following:

Carrier Services

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

Corporate Services

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

Unaudited operating segment information for the three and six months ended June 30, 2012 and 2011 is summarized as follows:

Three Months Ended June 30, 2012

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 9,621,378	$ 598,058	$ -	$ 10,219,436
Cost of revenues (exclusive of depreciation and amortization)	8,576,046	387,743	-	8,963,789
Gross profit	1,045,332	210,315	-	1,255,647
Depreciation and amortization	82,275	11,679	-	93,954
Selling, general and administrative expenses	1,278,767	977,909	-	2,256,676
Advertising and marketing	543	1,166	-	1,709
Other expenses	116,928	21,000	-	137,928
Loss from continuing operations	$ (433,181)	$ (801,439)	$ -	$ (1,234,620)
Total assets	$ 1,868,527	$ 1,381,748	$ 1,239,299	$ 4,489,574

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Three Months Ended June 30, 2011

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 10,076,009	$ 567,027	$ -	$ 10,643,036
Cost of revenues (exclusive of depreciation and amortization)	9,286,892	368,873	-	9,655,765
Gross profit	789,117	198,154	-	987,271
Depreciation and amortization	145,296	3,234	-	148,530
Selling, general and administrative expenses	1,100,303	905,688	-	2,005,991
Advertising and marketing	-	819	-	819
Other expenses	20,088	14,503	-	34,591
Loss from continuing operations	$ (476,570)	$ (726,090)	$ -	$ (1,202,660)
Total assets	$ 3,001,350	$ 1,772,399	$ 34,448	$ 4,808,197

Six Months Ended June 30, 2012

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 20,581,093	$ 1,173,047	$ -	$ 21,754,140
Cost of revenues (exclusive of depreciation and amortization)	18,262,516	746,033	-	19,008,549
Gross profit	2,318,577	427,014	-	2,745,591
Depreciation and amortization	170,059	22,118	-	192,177
Selling, general and administrative expenses	2,481,036	1,820,457	-	4,301,493
Advertising and marketing	543	7,490	-	8,033
Other expenses	220,521	43,938	-	264,459
Loss from continuing operations	$ (553,582)	$ (1,466,989)	$ -	$ (2,020,571)
Capital expenditures	$ 70,958	$ 4,272	$ 2,073	$ 77,303

Six Months Ended June 30, 2011

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 19,760,202	$ 1,087,114	$ -	$ 20,847,316
Cost of revenues (exclusive of depreciation and amortization)	18,104,966	696,429	-	18,801,395
Gross profit	1,655,236	390,685	-	2,045,921
Depreciation and amortization	313,820	3,248	-	317,068
Selling, general and administrative expenses	2,295,909	1,870,835	-	4,166,744
Advertising and marketing	58	5,324	-	5,382
Other expenses (income)	6,209	(12,026)	-	(5,817)
Loss from continuing operations	$ (960,760)	$ (1,476,696)	$ -	$ (2,437,456)
Capital expenditures	$ 27,604	$ 826	$ 7,316	$ 35,746

12. Other Income and Expenses

Other expenses (income) for the three and six months ended June 30, 2012 and 2011 consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Extinguishment of vendor liabilities	$ -	$ -	$ -	$ (75,000)
Loss on sale of accounts receivable	93,661	-	168,814	-
Other	(2,267)	(21,134)	(7,971)	(34,829)
Total operating expenses	91,394	(21,134)	160,843	(109,829)

On February 10, 2011, the Company executed a settlement agreement with a vendor which released the Company of all liability with respect to a previous dispute for which the Company was to have paid the vendor $75,000 in the form of common stock. As a result of this settlement, the Company reduced its escrow payable amount and recorded other income of $75,000 in the first six months of 2011.

13. Related Party Transactions

In addition to the debt and equity transactions discussed in notes 7 and 8, the Company's Desk Space Use and Occupancy Agreement that was entered into on March 29, 2011 with an entity affiliated with Marvin Rosen continues to be in effect on a month to month basis. Under the terms of the agreement, this affiliate utilizes a portion of the Company's leased office space in New York City for a fee of $9,000 per month. As of June 30, 2012, the Company had received $54,000 of advance payments in connection with this agreement, which is reflected in accounts payable and accrued expenses in the Company's consolidated balance sheet. The Company believes that the terms of this agreement are comparable to those it would otherwise receive had the agreement been negotiated at arms' length.

14. Subsequent events

On August 7, 2012 the maturity date of the $300,000 loan that the Company received on June 22, 2012 (see note 7) was extended to August 20, 2012. All other terms of the loan remain the same.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information contained in our unaudited consolidated financial statements and the notes thereto appearing elsewhere herein and in conjunction with the Management's Discussion and Analysis set forth in our fiscal 2011 Annual Report on Form 10-K.

OVERVIEW

Our Business

We are an international telecommunications carrier delivering value-added communications solutions to businesses and carriers in the United States and throughout the world. We offer services that include voice and data communications using Voice over Internet Protocol ("VoIP"), private network services, broadband Internet access, cloud services and other advanced services. The Company's Corporate Services business segment focuses on small, medium, and large corporations headquartered in the United States, but with the ability to serve their global communications needs and to provide service virtually anywhere in the world. The Company's Carrier Services business segment focuses on carriers throughout the world, with a particular focus on providing services to and from emerging markets in Asia, the Middle East, Africa, Latin America, and the Caribbean. Historically, we have generated the majority of our revenues from voice traffic sold to other carriers, with a strong focus in recent years on VoIP termination to emerging markets. We have focused on growing our existing customer base, which was primarily U.S.-based, through the addition of new international customers. We have also focused on expanding the Company's vendor base through the addition of direct VoIP termination arrangements to new countries and emerging markets.

Although we believe that the Carrier Services business segment continues to be of significant value to our long term strategy, ongoing competitive and pricing pressures have caused us to increase our focus on the higher margin Corporate Services business segment and to expand our efforts to market to small and mid-sized businesses, as well as larger enterprises, using both our direct and partner distribution channels. While our Corporate Services business segment is still a relatively small portion of our revenue base, we continue to increase our emphasis on this segment in order to increase the percentage of the Company's total revenues contributed by the Corporate Services business segment. We believe that this will complement the Company's Carrier Services business segment by providing higher margins and a more stable customer base.

On January 30, 2012, we entered into purchase agreements to acquire the business currently operated by Network Billing Systems, LLC and Interconnect Services Group II LLC (collectively, "NBS"). NBS currently provides voice (including VoIP) and data telecommunications services, as well as a wide variety of managed and cloud-based telecommunications services, to small and medium sized companies. For the year ended December 31, 2011, NBS had revenues of approximately $26.5 million and net income of approximately $3.1 million. NBS has approximately 5,000 customers.

The aggregate purchase price for the NBS acquisition transaction is $20 million, consisting of $17.75 million in cash, $1.0 million to be evidenced by a 24-month promissory note payable to the sellers and $1.25 million in shares of restricted common stock of the Company. Consummation of the transaction contemplated by the purchase agreements is subject to the satisfaction of certain conditions precedent, including, but not limited to, satisfactory completion of our due diligence on the business being acquired, completion of an audit of the financial books and records of NBS, receipt of certain regulatory approvals, our receipt of sufficient funding to pay the cash portion of the purchase price and provide for reasonable post-acquisition working capital requirements, negotiation and execution of mutually acceptable executive employment and non-compete agreements with Jon Kaufman, the principal operating officer of NBS, and other customary conditions of closing. While the purchase agreements, as amended on June 7, 2012, contemplate that closing of the acquisition of NBS would take place during the third quarter of 2012, the conditions precedent to closing are such that there can be no assurance that the acquisition will be completed in that time or at all.

We manage our business segments based on gross profit and margin, which represents net revenue less the cost of revenue, and on net profitability. Although our infrastructure is largely built to support all business segments and products, many of the infrastructure costs, selling, general and administrative expenses ("SG&A") and capital expenditures can be specifically associated with one of our two business segments. The majority of our operations, engineering, information systems and support personnel are assigned to either the corporate services or carrier services business segment for segment reporting purposes, while a relatively small number of personnel are allocated to the segments as appropriate.

Our Outlook

Our ability to grow our business, fully implement our business plan and achieve profitability is dependent upon our ability to raise significant amounts of additional capital. In addition to the cash portion of the purchase price of the pending NBS transaction, we require additional capital to support our Carrier Services business, specifically for capital expenditures required to expand our voice termination capacity, to implement a new automated system for the administration of routing and rates and for the working capital necessary to optimize the terms under which we buy from our vendors and sell to our customers. We believe that if we are able to obtain the necessary capital to fund our Carrier Services business and complete the acquisition of NBS, we will be able to compete effectively in both of our business segments.

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
evenues	$10,219,436	100.0%	$10,643,036	100.0%	$21,754,140	100.0%	$20,847,316	100.0%
ost of revenues, clusive of deprecation and amortization	8,963,789	87.7%	9,655,765	90.7%	19,008,549	87.4%	18,801,395	90.2%
ross profit	1,255,647		987,271		2,745,591		2,045,921	
perating expenses:								
epreciation and nortization	93,954	0.9%	148,530	1.4%	192,177	0.9%	317,068	1.5%
elling general and lministrative	2,256,676	22.1%	2,005,991	18.8%	4,301,493	19.8%	4,166,744	20.0%
dvertising and arketing	1,709	0.0%	819	0.0%	8,033	0.0%	5,382	0.0%
otal operating expenses	2,352,339	23.0%	2,155,340	20.3%	4,501,703	20.7%	4,489,194	21.5%
perating loss	(1,096,692)	-10.7%	(1,168,069)	-11.0%	(1,756,112)	-8.1%	(2,443,273)	-11.7%
terest expense, net	(46,534)	-0.5%	(55,725)	-0.5%	(103,616)	-0.5%	(104,012)	-0.5%
ther (expenses) income	(91,394)	-0.9%	21,134	0.2%	(160,843)	-0.7%	109,829	0.5%
otal other (expenses) come	(137,928)	-1.3%	(34,591)	-0.3%	(264,459)	-1.2%	5,817	0.0%
oss from continuing erations	$ (1,234,620)	-12.1%	$ (1,202,660)	-11.3%	$ (2,020,571)	-9.3%	$ (2,437,456)	-11.7%

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

Revenues

Consolidated revenues were $10.2 million during the three months ended June 30, 2012, compared to $10.6 million during the three months ended June 30, 2011, a decrease of $0.4 million, or 4.0%. Revenues for the Carrier Services segment were $9.6 million during the three months ended June 30, 2012, compared to $10.1 million during the three months ended June 30, 2011, a decrease of $0.5 million, or 4.5%. During the second quarter of 2012 we experienced a 71% increase in minutes transmitted over our network, the effect of which was more than offset by a 44% decrease in the blended rate per minute of the traffic terminated. Revenues for the Corporate Services segment of $0.6 million reflect an increase of $31,000, or 5.5%, due to co-location revenues in 2012 attributed to this segment that were not present in 2011.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $9.0 million during the three months ended June 30, 2012, compared to $9.7 million during the three months ended June 30, 2011, a decrease of $0.7 million, or 7.2%. Consolidated gross margin for the second quarter of 2012 was 12.3%, compared to 9.3% for the second quarter of 2011. In addition to the higher margin realized in the Carrier Services segment in 2012, our consolidated gross margin also benefited from the increase in relative contribution from the higher margin Corporate Services business to the Company's overall revenue mix.

Gross margin for the Carrier Services segment was 10.9% in the second quarter of 2012, compared to 7.8% in the second quarter of 2011, as we have moved to a more strategic bilateral business which locks in both inbound and outbound traffic over our network for up to 30 days at a time. In addition, we have improved the real-time monitoring of our route optimization practices. The resulting decrease in the blended cost per minute of traffic terminated more than offset the lower revenue rates realized on that traffic, giving rise to the improved gross margin. Due to the variability and inherent uncertainties in the wholesale carrier market, as well as our continued lack of sufficient working capital, we cannot predict whether this margin improvement and changes in rates will continue through the remainder of 2012. Gross margin for the Corporate Services segment was largely unchanged in the second quarter of 2012 at 35.2%, compared with 34.9% during the same period of a year ago.

Depreciation and Amortization

Depreciation and amortization decreased by $55,000 during the three months ended June 30, 2012 compared with the three months ended June 30, 2011, as more assets became fully depreciated during the period than were placed into service.

SG&A

SG&A increased by $0.3 million during the second quarter of 2012 as compared to the second quarter of 2011. The increase was primarily due to professional fees associated with the NBS transaction and higher personnel related costs, including stock-based compensation, due to increased headcount, as well as increases in consulting expenses, partially offset by lower bad debt expense.

Operating Loss

Our operating loss of $1.1 million for the three months ended June 30, 2012 represents a decrease of $71,000 from the three months ended June 30, 2011, as the increase in gross profit and lower depreciation and amortization expense were largely offset by increases in SG&A.

Interest Expense

Interest expense, net of interest income, was $47,000 for the three months ended June 30, 2012 compared to $56,000 for the same period of a year ago. The decrease is due to lower average unrelated party debt balances during the period.

Other (Expense) Income

Total other expenses, net of other income, increased by $0.1 million in three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase is due to the loss on the sale of accounts receivable in 2012, with no comparable amount in 2011, as our accounts receivable financing arrangement commenced in September of 2011. We have significantly increased our use of this arrangement in 2011 in order to address our short term liquidity challenges, and we expect to continue to do so in the near future until such time as we can arrange one or more financings that will yield significant cash proceeds to us.

Net Loss

The net loss of $1.2 million for the second quarter of 2012 was essentially unchanged from the same period of a year ago, as the slight reduction in operating loss was offset by the loss on the sale of accounts receivable.

Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011

Revenues

Consolidated revenues were $21.8 million during the six months ended June 30, 2012, compared to $20.8 million during the six months ended June 30, 2011, an increase of $0.9 million, or 4.3%. Carrier Services revenue of $20.6 million represents an increase of $0.8 million, or 4.2%, over the same period of a year ago, as an 85% increase in number of minutes transmitted over our network was largely offset a 44% decrease in the blended rate per minute of traffic terminated. Revenues for the Corporate Services segment increased by $86,000, or 7.9%, to $1.2 million during the six months ended June 30, 2012.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $19.0 million during the first six months of 2012, compared to $18.8 million during the first six months of 2011. Consolidated gross margin for the six months ended June 30, 2012 was 12.6%, compared to 9.8% for the same period of a year ago. The increase is mainly due to the higher margin realized in the Carrier Services segment in 2012.

Gross margin for the Carrier Services segment was 11.3% in the first six months of 2012, compared to 8.4% in the first six months of 2011, as the 4.2% increase in revenue was accompanied by a 0.9% increase in cost of revenues, as the blended cost per minute of traffic terminated decreased by 45.8%. Gross margin for the Corporate Services segment during the first six months of 2012 was 36.4%, compared with 35.9% during the same period of a year ago.

Depreciation and Amortization

Depreciation and amortization decreased by $0.1 million to $0.2 million during the six months ended June 30, 2012, from $0.3 million during the six months ended June 30, 2011, as more assets became fully depreciated during the period than were placed into service.

SG&A

SG&A increased by $0.1 million during the first six months of 2012 compared to the same period for 2011. The increase was mainly due to professional fees associated with the pending NBS transaction and increased consulting fees, partially offset by a reduction in our accruals for certain state and local taxes.

Operating Loss

Our operating loss of $1.8 million for the six months ended June 30, 2012 represents a decrease of $0.7 million, or 28.1%, from the six months ended June 30, 2011. The decrease was attributable to the higher gross profit generated by the carrier services segment.

Interest Expense

Interest expense, net of interest income, of $0.1 million for the six months ended June 30, 2012 was unchanged from the same period of a year ago.

Other (Expense) Income

Total other expenses, net of other income, was $161,000 for the first six months of 2012, compared to other income of $110,000 in the first six months of 2011. The change was mainly due to $75,000 of income realized through the extinguishment of a vendor liability in 2011 with no comparable amount in 2012, and a loss on sale of accounts receivable of approximately $169,000 in the first six months of 2012 with no comparable amount in 2011.

Net Loss

Net loss decreased from $2.4 million during the first six months of 2011 to $2.0 million during the first six months of 2012, due to the reduced operating loss discussed above, partially offset by the increase in other expenses, net of other income.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating and net losses. In addition, we have yet to generate positive cash flow from operations. As of June 30, 2012, we had a stockholders' deficit of $11.2 million, as compared to $10.6 million at December 31, 2011, and a working capital deficit of $12.6 million, as compared to $12.0 million at December 31, 2011. We currently do not have sufficient cash or other financial resources to fund our operations and meet our obligations for the next twelve months, to fund the cash portion of the purchase price of the proposed NBS acquisition or to provide post-acquisition working capital.

On September 12, 2011, we entered into a purchase and sale agreement with Prestige Capital Corporation ("Prestige"), whereby we may sell certain of our accounts receivable to Prestige at a discount in order to improve our liquidity and cash flow. Under the terms of the purchase and sale agreement, Prestige pays a percentage of the face amount of the receivables at the time of sale, and the remainder, net of the discount, is paid to us within three business days after Prestige receives payment on the receivables, which generally have 15 to 30 day terms. Since the fourth quarter of fiscal 2011 through the date of this report, this arrangement has been our primary source of liquidity, and we expect that it will continue to be so until such time as we can consummate one or more financings to provide us with significant cash proceeds. There are no current commitments for such funds and there can be no assurances that such funds will be available to the Company as needed.

Prestige also provided us with an advance of $208,000 at the time we entered into this agreement. The outstanding balance on this advance was approximately $103,000 at December 31, 2011, and this balance was paid in full as of March 31, 2012. On July 13, 2012, we received an additional advance of $100,000 which is payable in 8 consecutive weekly installments of $12,500, plus an advance fee of $6,000. The Prestige agreement was originally due to expire in June of 2012 but was automatically renewed for an additional nine months in accordance with its terms. For as long as the agreement is in effect, Prestige will continue to have a first priority lien on our accounts receivable.

We have historically relied upon loans from non-related and related parties, including Marvin Rosen, our Chairman of the Board of Directors, and the sale of our equity securities to fund our operations. More recently, we have been relying on the sale of our accounts receivable, including unbilled receivables, under the Prestige agreement, as well as the sale of our equity securities, and less so on borrowings from related and unrelated parties to fund our operations. From January 1, 2012 through the date of this report, we raised approximately $1.1 million from the sale of our securities through private placement financings, and as of June 30, 2012 approximately $1.5 million of our outstanding accounts receivable had been sold to Prestige. In addition, a substantial portion of our outstanding indebtedness is payable upon ten days notice from the related- party lender. Although we have yet to receive any demand notices for this indebtedness, there are no assurances that we will not receive any such notices in the future, and we currently do not have the financial resources to repay these loans should we receive a demand for payment.

On January 30, 2012 we entered into agreements to acquire NBS. The cash portion of the purchase price is $17.75 million. Although we have executed a letter of intent with two private funds for a senior debt investment of $16.5 million which would finance a substantial portion of the cash purchase price, this letter of intent is subject to a number of preconditions. As a result, no assurances can be given that funds will be available on terms that are acceptable to us, or at all.

In conjunction with our efforts to obtain debt financing for a substantial portion of the cash component of the NBS purchase price, we are seeking to consummate a significant sale of our equity securities which will (i) finance the remaining amount of the cash portion of the purchase price; (ii) provide for necessary post-acquisition working capital requirements for the acquired business; and (iii) provide the necessary funds for capital expenditures and working capital requirements of our existing business, including the implementation of our long term business plan.

On June 22, 2012, we received a $0.3 million loan from a third party lending institution. The loan bears interest at a rate of 3.25% per annum and was originally set to mature on August 6, 2012. The term of the loan has since been extended such that it is currently set to mature on August 20, 2012. The proceeds from the loan were used for general corporate purposes and to repay $60,000 of indebtedness to Marvin Rosen. Repayment of the loan is guaranteed by Mr. Rosen.

On October 27, 2011, the landlord over premises leased by the Company exercised its right under the lease to draw down the full amount of a letter of credit in the approximate amount of $429,000 that we had posted as security under the terms of the lease. The letter of credit was issued for our benefit by a third party lending institution and we had partially collateralized the letter of credit in the approximate amount of $240,000 by depositing this amount in a money market account with the lending institution. As a result of the drawdown of the letter of credit, we were required to pay the issuer of the letter of credit the difference between the full amount of the letter of credit and the amount of the collateral, which difference is approximately $189,000. While our failure to make this payment constitutes an event of default under the terms of the letter of credit, we did not receive a default notice from the lending institution and the Company and TD Bank, N.A., the successor entity to the issuer of the original letter of credit ("TD Bank"), entered into a forbearance agreement on April 6, 2012 setting forth payment terms for the outstanding amount. Under the terms of the forbearance agreement, which provides for interest on the outstanding amount at the rate of 5.25% per annum, we are required to make principal payments to TD Bank in the amount of $5,000 per month from March 27, 2012 through August 27, 2012, $50,000 on each of September 27, 2012, December 27, 2012 and March 27, 2013 and approximately $9,000 June 27, 2013. To date, the Company has complied with all of its payment obligations under the forbearance agreement.

On February 16, 2012, a landlord over these same premises commenced a proceeding in the New York City Civil Court in which the landlord sought to recover against the Company certain unpaid rent and related charges due under a lease agreement between the landlord and the Company. By Stipulation dated April 19, 2012, the landlord and the Company agreed that the landlord would be entitled to a judgment in the amount of approximately $223,000 and a warrant of eviction, but that the landlord would not enforce the judgment or execute the warrant as long as the Company complied with the Stipulation. The stipulation required a payment of $45,000 on April 15, 2012, and requires payments in the amount of $45,000 on each of May 15, June 15 and July 15, 2012, and a payment of $43,000 on August 15, 2012. To date, the Company has complied with all of its payment obligations under the Stipulation.

In the event that we are unable to secure the necessary funding to meet our working capital requirements and payment obligations, either through the sale of our securities or through other financing arrangements, we may be required to downsize, reduce our workforce, sell assets or possibly curtail or even cease operations.

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

	Six Months Ended June 30,	
	2012	**2011**
Cash from continuing operations:		
Cash used in operating activities	$ (1,318,589)	$ (2,100,022)
Cash used in investing activities	(80,448)	(35,746)
Cash provided by financing activities	2,195,647	2,179,340
Increase (decrease) in cash and cash equivalents from continuing operations	796,610	43,572
Cash from discontinued operations	(1,490)	(38,390)
Net increase (decrease) in cash and cash equivalents	795,120	5,182
Cash and cash equivalents, beginning of period	3,047	20,370
Cash and cash equivalents, end of period	$ 798,167	$ 25,552

Cash used in operating activities was $1.3 million during the first six months of 2012, compared to $2.1 million in the first six months of 2011. The decrease is mainly due to improved operating results and significant reductions in accounts receivable, partially offset by a decreases in accounts payable and accrued expenses.

Cash used in investing activities was $80,000 in the first six months of 2012 compared to $36,000 in the first six months of 2011, and primarily consisted of capital expenditures. We expect our cash capital expenditures to be approximately $50,000 for the remainder of 2012, primarily for additional infrastructure development for the Carrier Services business segment.

Cash provided by financing activities was $2.2 million in the first six months of 2012 and 2011. During the first six months of 2012, we raised $1.1 million from the sale of our common stock, received $0.2 million in new loans from Mr. Rosen and $0.3 million from a loan from a third party guaranteed by Mr. Rosen. We also received $0.8 million in connection with our private placement efforts, the proceeds from which remain in escrow. During the first six months of 2011, we received $2.0 million in new loans from Mr. Rosen, and raised $0.5 million from the sale of our common stock.

Sources of Liquidity

As of June 30, 2012, we had cash and cash equivalents of approximately $0.8 million, substantially all of which remains in escrow, and accounts receivable of approximately $1.5 million. 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 working capital requirements to support the growth and day-to-day operations of our business, principal and interest payments related to our financing obligations, capital expenditures and any additional funds that may be required for business expansion opportunities. In some situations, we may be required to guarantee payment or performance under agreements, and in these circumstances we may be required to secure letters of credit or bonds to do so. These instruments may further limit unrestricted cash and cash equivalents, and may place a further strain on our liquidity.

Debt Service Requirements

During the first six months of 2012, we repaid $0.1 million related to the advance made to us by Prestige in 2011. For the remainder of 2012, we expect to make payments aggregating to $0.1 million to satisfy the obligations under the TD Bank forbearance and settlement agreement. At June 30, 2012, we had approximately $5.4 million of current-term debt, of which is $5.1 million is collateralized by subordinated security interests in our accounts receivable.

Capital Instruments

During the first six months of 2012, we entered into subscription agreements with 29 accredited investors, under which we issued an aggregate of 10,762,717 shares of common stock and five-year warrants to purchase 3,339,940 shares of the Company's common stock for aggregate consideration of $1.1 million. The warrants are exercisable at 112%-125% of the average closing price of the Company's common stock for the five trading days prior to closing.

Critical Accounting Policies and Estimates

We have identified the policies and significant estimation processes discussed below as critical to our business operations and to the understanding of our results of operations. In many cases, the accounting treatment of a particular transaction is dictated by specific 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. 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, 2011, included in our Annual Report on Form 10-K. The 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. We base our 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 usage fees charged to carriers and corporations that terminate voice traffic over our network, and from the monthly recurring fees charged to customers that purchase our corporate products and services.

Variable revenue is earned based on the length (number of minutes duration) of a call. It is recognized upon completion of the call, and is adjusted to reflect customer 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 with the ability to complete a timely and accurate analysis of revenue earned in a period. Consequently, the recorded amounts are generally accurate and the recorded amounts are unlikely to be revised in the future.

Revenue earned from monthly services provided to our corporate services customers 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. The majority of the Company's monthly recurring charges for corporate services are billed in advance. To the extent that any cash received is related to a future period, it is recorded as deferred revenue until the service is provided or the usage occurs.

Accounts Receivable

Accounts receivable is recorded net of an allowance for doubtful accounts. On a periodic basis, we evaluate our accounts receivable and adjust the 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, collection efforts have been exhausted and payment is not expected to be received.

Cost of Revenues and Cost of Revenues Accrual

Cost of revenues is comprised primarily of costs incurred from other domestic and international communications carriers to originate, transport, and terminate voice calls for the Company's carrier and corporate customers. The majority of the Company's cost of revenues is thus variable, based upon the number of minutes actually used by the Company's customers and the destinations they are calling. Cost of revenues also includes the monthly recurring cost of certain platform services purchased from other service providers, as well as the monthly recurring costs of broadband Internet access and/or private line services purchased from other carriers to meet the needs of the Company's customers.

Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through the Company's network switches. During each period, the call activity is analyzed and an accrual is recorded for the revenues associated with minutes not yet invoiced. This cost accrual is calculated using minutes from the system and the variable cost of revenue based upon predetermined contractual rates.

Fixed expenses reflect the costs associated with connectivity between the Company's network infrastructure, including its New York switching facility, and certain large carrier customers and vendors. They also include the cost of fiber optic transmission facilities used to connect the Company's switching facility to certain international destinations. In addition, fixed expenses include the monthly recurring charges associated with certain platform services purchased from other service providers, the monthly recurring costs associated with private line services for certain corporate customers and the cost of broadband Internet access used to provide service to both carrier and corporate customers.

Impairment of Long-Lived Assets

We periodically review long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, we evaluate recoverability by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If the asset is impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the asset. We did not record any impairment of long-lived assets in the first six months of 2012 and 2011.

Income Taxes

We account for income taxes in accordance with U.S. GAAP, which requires the recognition of deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in our financial statements. Deferred tax liabilities and assets are determined based on the temporary differences between the financial statement 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

During the six months ended June 30, 2012 and 2011, there were no new accounting pronouncements adopted by the Company that had a material impact on the Company's consolidated financial statements. Management does not believe there are any recently issued, but not yet effective, accounting pronouncements, if currently adopted, that would have a material effect on the Company's consolidated financial statements.

Inflation

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

Off Balance Sheet Arrangements

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

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

As of June 30, 2012, we have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Forward Looking Statements

Certain statements and the discussion contained herein regarding the Company's business and operations may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1996. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may", "expect", "anticipate", "intend", "estimate" or "continue" or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. This disclosure highlights some of the important risks regarding the Company's business. The primary risk of the Company is its ability to attract fresh and continued capital to execute its comprehensive business strategy. There may be additional risks associated with the integration of businesses following an acquisition, concentration of revenue from one source, competitors with broader product lines and greater resources, emergence into new markets, the termination of any of the Company's significant contracts or partnerships, the Company's inability to maintain working capital requirements to fund future operations or the Company's inability to attract and retain highly qualified management, technical and sales personnel, and the other factors identified by us from time to time in the Company's filings with the SEC. However, the risks included should not be assumed to be the only things that could affect future performance. We may, among other things, also be subject to service disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

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

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to accomplish their objectives.

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

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

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

Risks Related to Our Business

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

At June 30, 2012, we had nominal cash on hand, a working capital deficit of approximately $12.6 million and a stockholders' deficit of approximately $11.2 million. Although we have reduced our losses, we continue to sustain losses from operations and for the six months ended June 30, 2012 and 2011 we incurred net losses applicable to common stockholders of approximately $2.2 million and $2.7 million, respectively. In addition, we did not generate positive cash flow from operations for the years ended December 31, 2011 and 2010 or the six months ended June 30, 2012 and 2011. We may not be able to generate profits in the future and may not be able to support our operations or otherwise establish a return on invested capital. In addition, we may not have sufficient funds to execute our business strategy, requiring us to raise funds from the capital markets or other sources, resulting in dilution of our common stock.

These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders' deficit. In light of our recurring losses, accumulated deficit and cash flow difficulties, the report of our independent registered public accounting firm on our financial statements for the fiscal year ended December 31, 2011 contained an explanatory paragraph raising substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that may be necessary in the event we are unable to continue as a going concern.

Our carrier services revenue performance is subject to both internal and external influences, which have negatively impacted our revenues and may continue to do so in the future.

During 2011 and 2010, the Company's carrier services revenue was negatively impacted not only by seasonal and economic market fluctuations, but also by a general decline in the overall market for international communications as a result of current economic conditions. We were also adversely affected by limits on our ability to provide extended payment terms to larger customers. We anticipate that these revenue growth constraints will be eased as the general economic conditions and the Company's financial condition improve, but there is no assurance that we will be successful in our efforts to increase revenues and margin contribution in this business segment.

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

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

We have historically funded our working capital requirements through the sale of our equity securities. The sale of equity securities to fund operations is dilutive to the equity ownership of our existing stockholders. Unless we are able to substantially increase our revenues to fund our operating expenses, we will in all likelihood be required to continue to fund operations through additional sales of our equity securities. In addition, limited cash resources may restrict our ability to sell those carrier services that require us to purchase termination capacity on shorter payment terms than the terms under which we are able sell to our customers. This could limit our ability to grow our revenues and/or margins, or limit our ability to achieve our revenue and/or margin targets.

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

We have historically relied upon loans from non-related and related parties, including Marvin Rosen, the chairman of our board of directors, to fund our operations. During fiscal 2011 we received approximately $2.9 million in new loans from Mr. Rosen. We expect to continue to rely on additional sales of our securities and additional borrowings to support our operations and meet the Company's financial obligations for the remainder of 2012. There are no current commitments for such funds and there can be no assurances that such funds will be available to the Company as needed. In addition, a substantial portion of our outstanding indebtedness is payable upon ten days notice from the lender. Although we have yet to receive any demand notices for this indebtedness, there are no assurances that we will not receive any such notices in the future, and we currently do not have the financial resources to repay these loans should we receive a demand for payment.

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

As of June 30, 2012, approximately $4.9 million of indebtedness was evidenced by such demand notes, all of which are held by Mr. Rosen. In connection with these notes, Mr. Rosen has been granted a subordinated security interest in our accounts receivable. If Mr. Rosen were to suddenly demand payment of all outstanding demand notes, or a substantial portion thereof, we likely would not have sufficient funds to repay those notes. In such event, he could assert rights against us in legal proceedings, and could seek to collect on the notes by enforcing his security interest in our accounts receivable. This could adversely affect the availability of the funds required to continue operation of our business.

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

We may not be able to expand our product offerings, 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, 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 achieve profitability.

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

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

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

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

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

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

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

On March 8, 2007, a jury in the U.S. District Court for the Eastern District of Virginia ruled that Vonage Holdings had infringed on six patents held by Verizon Communications, and ordered Vonage to pay Verizon $58 million plus a future royalty payment equal to 5.5% of Vonage's customer sales. The patents related in part to technologies used to connect Internet telephone use to the traditional telephone network. Vonage appealed the decision, but terminated its appeals options in November 2007, when it agreed to pay Verizon approximately $120 million in settlement. The future impact, if any, of this litigation, or of similar litigation that might be initiated by other companies against VoIP service providers, including us, is unclear. If we were restricted from using certain VoIP technologies, it could increase our cost of service or preclude us from offering certain current or future services.

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

We could lose clients or expose ourselves to liability if there are any breaches to our network security systems that jeopardize or result in the loss of confidential information stored in our computer systems. Since our inception, we have experienced only two known breaches of network security, which resulted in a temporary failure of certain network operations, but neither breach resulted in any loss of confidential customer information or in any material financial loss. However, a future network security breach could harm our ability to deliver certain services, damage our reputation or subject us to liability.

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

Our ability to grow through efficient and cost effective deployment of our VoIP services is in part dependent upon our ability to identify and contract with local entities that will assist in the distribution of our services. This will include local sales partners that sell our corporate services. If we are unable to identify or contract for such distribution relationships, or if the efforts of third party sales agents are not successful, we may not generate the customers or revenues currently envisioned and our results of operations will be adversely impacted.

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

Our entry into new domestic and international markets may in certain cases rely upon our ability to obtain licenses or other approvals to operate in those markets, our ability to establish good working relationships with the relevant telecommunications regulatory authorities in that jurisdiction or our ability to interconnect to the local telephone networks in that market. If we are not able to obtain necessary licenses or approvals, our ability to enter into new markets may be delayed or prevented.

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

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

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

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

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

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

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

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

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

In some cases, the growth of our carrier services business requires the cooperation of other international carriers and/or the incumbent PTT in order to provide services to or from specific countries or markets. In the event the PTT, or another in-country international carrier, does not cooperate with us or support us in our efforts to serve that country, our ability to provide service to or from that country may be delayed, or the costs to provide service might increase due to our being forced to use another more expensive carrier. If we are unable to develop and maintain successful relationships with other international carriers and PTTs, our ability to service an important market could be prevented or adversely affected.

Service interruptions due to disputes or other conditions over which we have no or little control could result in a loss of revenues and harm our reputation.

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

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

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

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

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

As a result of changes in regulatory policy, we could be forced to pay additional taxes on the products and services we provide. We structure our operations and our pricing based on assumptions about various domestic and international tax laws, tax treaties and other relevant laws. Taxation authorities or other regulatory authorities might not reach the same conclusions about taxation that we have reached in formulating our assumptions. We could suffer adverse tax and other financial consequences if our assumptions about these matters are incorrect or the relevant laws are changed or modified.

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

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

In addition to new regulations being adopted, existing laws may be applied to the Internet, which could hinder 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. Changes to existing regulations or the adoption of new regulations could delay growth in demand for our products and services and limit the growth of our revenue.

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

A large percentage of our carrier services revenues are provided by a limited number of customers. Specifically, our five largest customers accounted for approximately 47% and 53% of our revenues for the years ended December 31, 2011 and December 31, 2010, respectively. The terms of our customer agreements do not bind the customer contractually to continue using our services and if our business with these customers were to significantly decrease or cease altogether, it could have a negative impact on our revenues and cash flow.

Risks Related to our Common Stock

Although our shares are widely dispersed, two voting blocs may influence the outcome of matters submitted to a vote of our stockholders; and the interests of these voting blocs may differ from other stockholders.

West End Special Opportunity Fund II, LP ("West End") currently beneficially owns approximately 19.9 million shares, or 12.2%, of our outstanding common stock, and is the second largest single voting bloc in the Company. Additionally, our directors and executive officers as a group currently beneficially own approximately 49.6 million shares, or 27.9% of our common stock. As a result, while neither West End nor our directors and officers as a group have sufficient voting power to control the outcome of matters submitted to a vote of our stockholders, the extent of their ownership enables both groups to influence the outcome of these matters, including the election of directors and extraordinary corporation transactions including business combinations. The interests of the holders of these voting blocs may differ from those of other stockholders.

We are unlikely to pay cash dividends on our common stock in the foreseeable future.

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

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

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

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

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

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

Our common stock may become subject to the "penny stock" rules of the SEC, which will make transactions in our shares cumbersome and may reduce the value of an investment in our shares.

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

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

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

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

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

Our use of equity to fund operations is dilutive to stockholders and, depending upon the market price for our shares at the time of issuance, we may be required to issue shares at depressed prices.

Historically, we have funded our working capital requirements through the sale of our equity. The use of our equity to fund operations is dilutive to the equity ownership of our securities by our existing stockholders. Unless we are able to generate substantial revenues to fund our operating expenses, we will, in all likelihood, be required to continue to fund operations through the sale of our equity. Moreover, the dilutive effect on our stockholders of the issuance of new equity shares is directly impacted by the market price for our shares at the time of issuance. If we are required to issue shares at a time when the market price for our shares is depressed, we will issue more shares than if the market price was higher, and the dilutive effect on our stockholders will be greater.

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

As of the date of this report, there were 166,432,351 shares of our common stock outstanding. The issuance of our shares upon the exercise or conversion of securities we have outstanding will increase the number of our publicly traded shares, which could depress the market price of our common stock. As of June 30, 2012, unexercised options to purchase 6,548,261 shares of our common stock, unexercised warrants to purchase 51,372,711 shares of our common stock and outstanding preferred stock, including accumulated dividends, convertible into 7,206,168 shares of common stock were outstanding.

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

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

Our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock, of which 5,045 shares of Series A-1, A-2 and A-4 Preferred Stock are currently issued and outstanding. Our certificate of incorporation gives our board of directors the authority to issue preferred stock without the approval of our common stockholders. We intend to issue additional shares of preferred stock to raise money to finance our operations and complete the NBS transaction. We may authorize the issuance of the preferred stock in one or more series. In addition, we may set the terms of preferred stock, including:

- Dividend and liquidation preferences
- Voting rights
- Conversion privileges
- Redemption terms
- Other privileges and rights of the shares of each authorized series

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

RISKS RELATED TO OUR PROPOSED ACQUISITION OF NBS

Consummation of our proposed acquisition of NBS is subject to the satisfaction of numerous conditions precedent and may not be consummated.

Consummation of our proposed acquisition of NBS is subject to the satisfaction of numerous conditions precedent, including but not limited to, satisfactory completion of our due diligence and completion of an audit of the financial books and records of the business to be acquired, receipt of certain regulatory approvals, our receipt of sufficient funding to pay the cash portion of the purchase price and provide for reasonable post-acquisition working capital requirements, negotiation and execution of mutually acceptable executive employment and non-compete agreements with Jon Kaufman, the principal operating officer of NBS, and other customary conditions of closing. There is no assurance that the conditions precedent to closing will be satisfied or waived, or that the proposed acquisition of NBS will be consummated.

We may be unable to secure the funding necessary to consummate our proposed acquisition of NBS.

Among the conditions precedent to consummation of our acquisition of NBS is our ability to secure the necessary funding. Although we have executed a letter of intent with two private funds for a senior debt investment of $16.5 million which would finance a substantial portion of the cash purchase price, this letter of intent is subject to a number of preconditions. As a result, no assurances can be given that funds will be available on terms that are acceptable to us, or at all.

Consummation of our acquisition of NBS does not provide assurance that the operations of NBS will be accretive to our earnings or otherwise improve our results of operations.

Acquisitions, such as our proposed acquisition of NBS, involve the integration of previously separate businesses into a common enterprise in which it is envisioned that synergistic operations and economies of scale will create accretive earnings and improved results of operations. However, realization of these envisioned results are subject to numerous risks and uncertainties including but not limited to:

- Diversion of management time and attention from daily operations;
- Difficulties integrating the acquired business, technologies and personnel into our business;
- Potential loss of key employees, key contractual relationships or key customers of the acquired business; and
- Assumption of the liabilities and exposure to unforeseen liabilities of the acquired business

Even if our proposed acquisition of NBS is consummated, there is no assurance that the acquisition will be accretive to our earnings or otherwise improve our results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three months ended June 30, 2012, we entered into subscription agreements with 9 accredited investors, under which we issued an aggregate of 1,994,889 shares of common stock and five-year warrants to purchase 598,472 shares of the Company’s common stock for aggregate consideration of $0.3 million. The warrants are exercisable at 112%-125% of the average closing price of the Company’s common stock for the five trading days prior to closing. The net proceeds were used for general working capital purposes. The securities were sold by the Company’s officers and directors and no commissions or other remuneration were paid in connection with these transactions. These transactions were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5. OTHER INFORMATION.

None

ITEM 6.EXHIBITS.

EXHIBIT NO.	DESCRIPTION
31.1	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.45	Amendment No. 1 to the Asset Purchase and Sale Agreement dated June 7^{th} 2012 between the registrant, Interconnect Services Group II LLC, Jonathan Kaufman, Lisa Kaufman as trustee of the JK Trust and Jonathan Kaufman as trustee of the LKII Trust.
10.46	Amendment No. 2 to the Membership Interest Purchase and Sale Agreement dated June 7^{th} 2012 between the registrant, Network Billing Systems, LLC, Jonathan Kaufman, Christiana Trust as trustee of the LK Trust
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

	FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.
	By: **/s/ MATTHEW D. ROSEN**
	Matthew D. Rosen
August 14, 2012	Chief Executive Officer
	By: **/s/ GORDON HUTCHINS, JR.**
	Gordon Hutchins, Jr.
	President, Chief Operating Officer and Acting
August 14, 2012	Chief Financial Officer

Index to Exhibits

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AMENDMENT NO. 1 TO
ASSET PURCHASE AND SALE AGREEMENT

THIS AMENDMENT NO. 1 TO ASSET PURCHASE AND SALE AGREEMENT (the "Agreement") is made as of this __ day of June 2012 (the "Effective Date") by and among Fusion Telecommunications International, Inc. ("Fusion"), a corporation organized under the laws of the State of Delaware; NBS Acquisition Corp. ("Newco" and together with Fusion sometimes collectively hereinafter referred to as "Purchasers"), a corporation to be formed under the laws of the State of Delaware as a wholly-owned subsidiary of Fusion; Interconnect Systems Group II LLC ("ISG" or the "Company"), a limited liability company organized under the laws of the State of New Jersey; Jonathan Kaufman ("Kaufman"), a resident of the State of New Jersey; Lisa Kaufman as trustee of the JK Trust ("JK Trust"), a New Jersey Trust and Jonathan Kaufman as trustee of the LKII Trust ("LKII Trust") a New Jersey Trust. Fusion, Newco, ISG, Kaufman and LK are sometimes hereinafter referred to individually as a "Party" or collectively as the "Parties."

W I T N E S S E T H:

WHEREAS, the Parties are all of the parties to that certain Asset Purchase and Sale Agreement dated as of January 30, 2012 (the "Original Agreement"); and

WHEREAS, the Parties desire to amend the Original Agreement as hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

1. <u>Defined Terms</u>. Defined terms, not otherwise defined herein shall have the respective meanings ascribed to them in the Original Agreement.

2. <u>Company Name</u>. All references within the Original Agreement to the name Interconnect Systems Group II LLC are deleted in their entirety and replaced with the name Interconnect Services Group II LLC.

3. <u>Audit Due Date</u>. Section 6.8 of the Original Agreement is hereby deleted in its entirety and replaced with the following:

6.8 Audit of Books and Records

Closing of the Transactions shall be subject to the completion and delivery to Purchasers of an audit (the "Audit") of the financial statements of NBS, ISG and the Business, to the extent required by and under the applicable rules and regulations of the SEC (the "Audited Financial Statements"), by an audit firm acceptable to Purchasers and their professional advisors, in their sole discretion. Sellers shall use their best efforts to reasonably cooperate with its audit firm and Purchasers in the conduct of the Audit. The Parties agree to use their best efforts to cause the Audit to be completed on or before June 30, 2012 (as may be further extended by mutual consent of the Parties, the "Audit Due Date"). Purchasers may terminate this Agreement within ten (10) business days following receipt of the Audited Financial Statements in the event that (a) the Audited Financial Statements are determined by Fusion's auditors not to be in compliance with GAAP and/or the rules and regulations of the SEC applicable to Fusion, (b) the filing of such Audited Financial Statements with the SEC could cause Fusion to be out of compliance with its obligations under Federal securities laws and/or (c) the financial condition and results of operations reported in the Audited Financial Statements are materially and adversely different from the financial condition or results of operations reported in the Unaudited Financial Statements. The Parties' obligations to pay the fees and expenses of the Audit are set forth in Section 10.2 below.

4. <u>No Other Changes</u>. Except as set forth herein, the terms and conditions of the Original Agreement shall remain in full force and effect.

5. <u>Miscellaneous</u>. The provisions of Article X of the Original Agreement shall be applicable to this Agreement and are hereby incorporated by reference as if fully set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. ("FUSION")

By: ___________________________

Title: __________________________

____
("Newco")

By: _________________________

Title: ________________________

INTERCONNECT SERVICES GROUP II, LLC ("ISG")

By: ___________________________

Title: __________________________

JONATHAN KAUFMAN ("KAUFMAN")

By: ___________________________

Title: __________________________

THE LKII TRUST

By: ___________________________

Title: __________________________

THE JK TRUST

By: ___________________________

Title: __________________________

EXHIBIT 10.46

AMENDMENT NO. 1 TO
MEMBERSHIP INTEREST PURCHASE AND SALE AGREEMENT

THIS AMENDMENT NO. 1 TO MEMBERSHIP INTEREST PURCHASE AND SALE AGREEMENT (the “Agreement”) is made as of this ___ day of June 2012 (the “Effective Date”) by and among Fusion Telecommunications International, Inc. (“Fusion”), a corporation organized under the laws of the State of Delaware; NBS Acquisition Corp. (“Newco” and together with Fusion sometimes collectively hereinafter referred to as “Purchasers”), a corporation to be formed under the laws of the State of Delaware as a wholly-owned subsidiary of Fusion; Network Billing Systems, LLC (“NBS” or the “Company”), a limited liability company organized under the laws of the State of New Jersey; Jonathan Kaufman (“Kaufman”), a resident of the State of New Jersey; and Christiana Trust as trustee of the LK Trust (“LK”), a Delaware Trust. Fusion, Newco, NBS, Kaufman and LK are sometimes hereinafter referred to individually as a “Party” or collectively as the “Parties.”

WITNESSETH:

WHEREAS, the Parties are all of the parties to that certain Membership Interest Purchase and Sale Agreement dated as of January 30, 2012 (the “Original Agreement”); and

WHEREAS, the Parties desire to amend the Original Agreement as hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

1. <u>Defined Terms</u>. Defined terms, not otherwise defined herein shall have the respective meanings ascribed to them in the Original Agreement.

2. <u>Audit Due Date</u>. Section 6.8 of the Original Agreement is hereby deleted in its entirety and replaced with the following:

6.8 Audit of Books and Records

Closing of the Transactions shall be subject to the completion and delivery to Purchasers of an audit (the “Audit”) of the financial statements of NBS, ISG and the Business, to the extent required by and under the applicable rules and regulations of the SEC (the “Audited Financial Statements”), by an audit firm acceptable to Purchasers and their professional advisors, in their sole discretion. Sellers shall use their best efforts to reasonably cooperate with its audit firm and Purchasers in the conduct of the Audit. The Parties agree to use their best efforts to cause the Audit to be completed on or before June 30, 2012 (as may be further extended by mutual consent of the Parties, the “Audit Due Date”). Purchasers may terminate this Agreement within ten (10) business days following receipt of the Audited Financial Statements in the event that (a) the Audited Financial Statements are determined by Fusion’s auditors not to be in compliance with GAAP and/or the rules and regulations of the SEC applicable to Fusion, (b) the filing of such Audited Financial Statements with the SEC could cause Fusion to be out of compliance with its obligations under Federal securities laws and/or (c) the financial condition and results of operations reported in the Audited Financial Statements are materially and adversely different from the financial condition or results of operations reported in the Unaudited Financial Statements. The Parties’ obligations to pay the fees and expenses of the Audit are set forth in Section 10.2 below.

3. <u>No Other Changes</u>. Except as set forth herein, the terms and conditions of the Original Agreement shall remain in full force and effect.

4. <u>Miscellaneous</u>. The provisions of Article 10 of the Original Agreement shall be applicable to this Agreement and are hereby incorporated by reference as if fully set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. ("FUSION")	___________________________________ **("Newco")**
By: __________________________	By: ________________________
Title: _________________________	Title: _______________________
NETWORK BILLING SYSTEMS, LLC ("NBS")	**JONATHAN KAUFMAN ("KAUFMAN")**
By: __________________________	By: __________________________
Title: _________________________	Title: _________________________

THE LK TRUST

By: __________________________

Title: _________________________

EXHIBIT 31.1

Certification of the Chief Executive Officer

I, **Matthew D. Rosen**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the "Report") of Fusion Telecommunications International, Inc., a Delaware corporation ("the Registrant");

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

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

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

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

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

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

(d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors;

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

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

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 14, 2012

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

EXHIBIT 31.2

Certification of the Chief Financial Officer

I, **Gordon Hutchins, Jr.**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the "Report") of Fusion Telecommunications International, Inc., a Delaware corporation ("the Registrant");

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

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

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

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

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

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

(d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors;

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

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

FUSION TELECOMMUNICATIONS
INTERNATIONAL, INC.

August 14, 2012

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

Chief Financial Officer

EXHIBIT 32.1

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 14, 2012

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 SEC or its staff upon request.

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 14, 2012

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

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