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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 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: November 13, 2012.

Title Of Each Class	**Number of Shares Outstanding**
Common Stock, $0.01 par value	177,795,987

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FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Condensed Consolidated Balance Sheets

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,727,395	$ 3,047
Accounts receivable, net of allowance for doubtful accounts of approximately $288,000 and $245,000, respectively	1,695,863	2,400,427
Prepaid expenses and other current assets	530,545	388,343
Total current assets	5,953,803	2,791,817
Property and equipment, net	717,514	831,402
Other assets:		
Security deposits	437,141	437,141
Restricted cash	162,933	299,536
Intangible assets, net	78,423	165,578
Other assets	13,833	31,494
Total other assets	692,330	933,749
TOTAL ASSETS	$ 7,363,647	$ 4,556,968
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Promissory notes payable - non-related parties	$ 458,966	$ 292,039
Promissory notes payable - related parties	5,137,364	4,922,364
Escrow payable	3,875,250	-
Accounts payable and accrued expenses	10,381,997	9,448,981
Current liabilities from discontinued operations	96,345	97,835
Total current liabilities	19,949,922	14,761,219
Long-term liabilities:		
Other long-term liabilities	298,945	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	138,552,999	137,325,467
Accumulated deficit	(153,102,591)	(149,447,124)
Total stockholders' deficit	(12,885,220)	(10,584,494)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 7,363,647	$ 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$ 9,959,965	$ 9,931,247	$ 31,714,105	$ 30,778,563
Cost of revenues, exclusive of depreciation and amortization, shown separately below	9,164,247	8,820,457	28,172,796	27,621,852
Gross profit	795,718	1,110,790	3,541,309	3,156,711
Depreciation and amortization	94,426	101,137	286,603	418,205
Selling general and administrative expenses (including $31,503 and $38,603 of stock-based compensation for the three months ended September 30, 2012 and 2011, respectively and $100,685 and $71,990 of stock-based compensation for the nine months ended September 30, 2012 and 2011, respectively	2,215,736	2,051,647	6,517,229	6,218,391
Advertising and marketing	15	1,613	8,048	6,995
Total operating expenses	2,310,177	2,154,397	6,811,880	6,643,591
Operating loss	(1,514,459)	(1,043,607)	(3,270,571)	(3,486,880)
Other (expenses) income:				
Interest expense, net of interest income	(56,861)	(37,432)	(160,477)	(141,444)
Other	(63,576)	(27,101)	(224,419)	82,728
Total other (expenses) income	(120,437)	(64,533)	(384,896)	(58,716)
Loss from continuing operations	(1,634,896)	(1,108,140)	(3,655,467)	(3,545,596)
Discontinued operations:				
Income from discontinued operations	-	(2,833)	-	5,531
Net loss	$ (1,634,896)	$ (1,110,973)	$ (3,655,467)	$ (3,540,065)
Loss applicable to common stockholders:				
Loss from continuing operations	$ (1,634,896)	$ (1,108,140)	$ (3,655,467)	$ (3,545,596)
Preferred stock dividends in arrears	(101,451)	(101,729)	(302,149)	(368,446)
Net loss from continuing operations applicable to common stockholders:	(1,736,347)	(1,209,869)	(3,957,616)	(3,914,042)
Income from discontinued operations	-	(2,833)	-	5,531
Net loss applicable to common stockholders:	$ (1,736,347)	$ (1,212,702)	$ (3,957,616)	$ (3,908,511)
Basic and diluted loss per common share:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)
Loss from discontinued operations	-	(0.00)	-	0.00
Loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)
Weighted average common shares outstanding:				
Basic and diluted	166,432,351	144,588,746	164,107,320	138,994,794

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2012	**2011**
Cash flows from operating activities:		
Net loss	$ (3,655,467)	$ (3,540,065)
Income from discontinued operations	-	(5,531)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	286,603	418,205
Loss on disposal of property and equipment	-	24,614
Loss on sale of accounts receivable	235,044	7,610
Bad debt expense	79,418	150,407
Stock-based compensation	100,685	71,991
Settlement of vendor liabilities	-	(75,000)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	354,586	(66,639)
Prepaid expenses and other current assets	(106,685)	(162,333)
Other assets	17,661	10,254
Payments of security deposits	-	(1,250)
Accounts payable and accrued expenses	1,075,597	58,338
Other long-term liabilities	(81,298)	(23,134)
Net cash used in operating activities	(1,693,856)	(3,132,533)
Cash flows from investing activities:		
Purchase of property and equipment	(81,564)	(57,387)
Increase in restricted cash	(425)	(4,490)
Net cash used in investing activities	(81,989)	(61,877)
Cash flows from financing activities:		
Proceeds from the sale of common stock and warrants, net	1,119,506	681,005
Proceeds from notes payable - related parties	486,000	3,014,740
Proceeds from notes payable - non-related parties	300,000	208,382
Payments on capital lease/equipment financing obligations	-	(2,587)
Proceeds from the sale of equity securities not yet issued	3,875,250	-
Repayments of notes payable - related parties	(146,000)	(277,000)
Repayments of notes payable - non-related parties	(133,073)	(383,870)
Net cash provided by financing activities	5,501,683	3,240,670
Net increase in cash and cash equivalents from continuing operations	3,725,838	46,260
Cash flows from discontinued operations:		
Net cash used in operating activities of discontinued operations	(1,490)	(44,755)
Net change in cash and cash equivalents:	3,724,348	1,505
Cash and cash equivalents, beginning of period	3,047	20,370
Cash and cash equivalents, end of period	$ 3,727,395	$ 21,875
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 32,074	$ 19,421
Supplemental schedule of non-cash financing activities:		
Conversion of notes and interest payable - related parties to common stock	$ 125,000	$ 245,173
Conversion of accounts payable - related parties to common stock	$ 35,000	$ -
Conversion of notes and interest payable - nonrelated parties to common stock	$ -	$ 317,636
Preferred stock converted into common stock	$ -	$ 2,500,000

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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 financial 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, including Fusion NBS Acquisition Corp. ("FNAC"), (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 nine months ended September 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.

Escrow payable

A liability is recorded for the Company's obligation to issue equity securities, which amounted to $3.9 million as of September 30, 2012. The securities were issued and the liability was relieved in October of 2012 (see note 14).

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 September 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 September 30, 2012 and December 31, 2011. During the nine month periods ended September 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 September 30, 2012 and 2011 because their inclusion would be antidilutive:

	2012	2011
Warrants	51,372,711	45,452,877
Stock options	6,418,261	5,244,761
Convertible preferred stock	7,299,510	6,927,913
	65,090,482	57,625,551

The net loss per common share calculation includes a provision for preferred stock dividends in the approximate amount of $101,000 and $102,000 for the three months ended September 30, 2012 and 2011, respectively, and approximately $302,000 and $368,000 for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, the Board of Directors had not declared any dividends on the Company’s preferred stock, and the Company had accumulated approximately $3,026,000 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 nine months ended September 30, 2012 the Company recognized a loss on the sale of accounts receivable of approximately $66,000 and $235,000, respectively. For the three and nine months ended September 30, 2011 the Company recognized a loss on the sale of accounts receivable of approximately $8,000.

Approximately $1.1 million and $1.0 million of the Company's outstanding accounts receivable had been sold as of September 30, 2012 and December 31, 2011, respectively. In the event that the purchaser of these receivables does not receive payment from the customer within 90 days of the invoice date, absent the initiation of a bankruptcy proceeding from such customer or other indication of the customer's insolvency, as defined in the agreement, the purchaser has the right to sell the receivable back to the Company. The Company's obligations to the purchaser of the receivables under the agreement are secured by a first priority lien on its accounts receivable (see note 14). Based on the Company's evaluation of the creditworthiness of the customers whose receivables the Company sells under this arrangement, the Company does not believe that there is any significant credit risk related to those receivables.

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 and nine months ended September 30, 2012 and 2011 includes compensation expense for stock-based payment awards granted prior to September 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 $32,000 and $39,000 for the three months ended September 30, 2012 and 2011, respectively, and approximately $101,000 and $72,000 for the nine months ended September 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 nine months ended September 30, 2012:

Activity	(unaudited) Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2011	6,634,261	$ 0.74
Granted	49,500	$ 0.10
Cancelled or expired	(265,500)	$ 0.16
Outstanding at September 30, 2012	6,418,261	$ 0.76
Exercisable at September 30, 2012	4,462,888	$ 1.06

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) Nine Months Ended September 30,	
	2012	2011
Dividend yield	0.00%	0.00%
Stock volatility	111.2-148.7%	123.0-179.7%
Average Risk-free interest rate	0.25-0.28%	1.45-2.46%
Average option term (years)	4	4

As of September 30, 2012, there was approximately $115,000 of total unrecognized compensation cost, excluding the effect 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 1.82 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 September 30, 2012 and December 31, 2011 the Company had approximately $163,000 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. In September of 2012, the landlord over the premises at one of the Company's leased facilities drew down $137,000 on the letter of credit in lieu of the Company's payment of past due rent and real estate taxes.

2. Going Concern

At September 30, 2012, the Company had a working capital deficit of $14.0 million and an accumulated deficit of $153.1 million. The Company has continued to sustain losses from operations and has not generated positive cash flow from operations since inception. During the nine months ended September 30, 2012, the Company raised approximately $1.1 million, net of expenses, from the sale of its 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.

Based on the proceeds received from the Company's equity offering that closed in October of 2012 (see note 14), the Company's management believes that it has adequate cash to fund its operations for the remainder of the year.

3. Prepaid Expenses and Other Current Assets

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

	September 30, 2012 (unaudited)	December 31, 2011
Prepaid insurance	$ 75,433	$ 47,562
Due from purchaser of accounts receivable	296,953	261,437
Other prepaid expenses	158,159	79,344
Total	$ 530,545	$ 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 September 30, 2012 and December 31, 2011, and had liabilities from discontinued operations of approximately $96,000 and $98,000 at September 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 nine months ended September 30, 2012, a loss from discontinued operations of approximately $3,000 in the three months ended September 30, 2011 and income from discontinued operations of approximately $6,000 in the nine months ended September 30, 2011, consisting primarily of bad debt recoveries.

5. Intangible Assets

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

	September 30, 2012 (unaudited)			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Trademarks	$ 315,745	$ (289,779)	$ 25,966	$ 315,745	$ (211,879)	$ 103,866
Intellectual Property	86,397	(33,940)	52,457	86,397	(24,685)	61,712
Total	$ 402,142	$ (323,719)	$ 78,423	$ 402,142	$ (236,564)	$ 165,578

Amortization expense was $29,052 and $20,074 for the three months ended September 30, 2012 and 2011, respectively, and $87,156 and $60,222 for the nine months ended September 30, 2012 and 2011, respectively. Estimated future aggregate amortization expense is as follows for the periods indicated:

Remaining three months ending December 31,	2012	$ 29,051
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 September 30, 2012 and December 31, 2011:

	September 30, 2012 (unaudited)	December 31, 2011
Trade accounts payable	$ 8,519,438	$ 8,061,024
Accrued expenses	553,621	468,214
Accrued payroll and vacation	95,599	110,829
Cost accrual	316,839	2,815
Interest payable	508,059	376,506
Deferred revenue	28,212	10,044
Other	360,229	419,549
	$ 10,381,997	$ 9,448,981

7. Notes Payable

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

	September 30, 2012 (unaudited)	December 31, 2011
Promissory notes payable - related parties	$ 5,137,364	$ 4,922,364
Promissory notes payable - non-related parties	458,966	292,039
Total promissory notes payable	5,596,330	5,214,403
Less:		
Current portion of notes payable - related parties	(5,137,364)	(4,922,364)
Current portion of notes payable - non-related parties	(458,966)	(292,039)
Non-current portion of promissory notes payable	$ -	$ -

Promissory notes payable – related parties

Promissory notes payable – related parties at September 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 nine months ended September 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 nine months ended September 30, 2012, the Company received $236,000 of new loans from Mr. Rosen, $146,000 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. On September 17, 2012 the Company received a new loan from Marvin Rosen and another member of the Company's Board of Directors in the principal amount of $250,000, the proceeds from which was used for general corporate purposes, and which was repaid on October 22, 2012 (see note 14). As of September 30, 2012, the Company had an aggregate principal amount of outstanding notes payable to related parties in the amount of $5,137,364. See note 14 for additional transactions subsequent to September 30, 2012 for notes payable to related parties.

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 nine months ended September 30, 2012.

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 was 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. The outstanding balance due under the forbearance agreement at September 30, 2012 was $158,966 and is reflected in Promissory notes payable – non-related parties in the Company's consolidated balance sheet. This amount was repaid in full, along with all accrued interest, forbearance and other fees, on October 22, 2012 (see note 14).

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 originally set to mature on August 6, 2012. The term of the loan has since been extended from time to time and the entire balance of the loan was repaid on October 22, 2012 (see note 14). The proceeds from the loan were used for general corporate purposes and to repay $60,000 of indebtedness to Marvin Rosen.

8. Equity Transactions

From time to time during the first nine 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 nine 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 nine 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 September 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. See note 14 regarding additional equity transactions subsequent to September 30, 2012.

9. Recently Adopted and Issued Accounting Pronouncements

During the nine months ended September 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 amount of the judgment has been satisfied. However, because rent payments for September, October and November of 2012 remain outstanding, the Stipulation agreement remains in effect. 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.

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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months Ended September 30, 2012

	Carrier Services	Corporate Services and Other	Corporate and Unallocated	Consolidated
Revenues	$ 9,383,989	$ 575,976	$ -	$ 9,959,965
Cost of revenues (exclusive of depreciation and amortization)	8,821,004	343,243	-	9,164,247
Gross profit	562,985	232,733	-	795,718
Depreciation and amortization	82,618	11,808	-	94,426
Selling, general and administrative expenses	1,265,538	950,198	-	2,215,736
Advertising and marketing	-	15	-	15
Other expenses	94,432	26,005	-	120,437
Loss from continuing operations	$ (879,603)	$ (755,293)	$ -	$ (1,634,896)
Total assets	$ 1,773,957	$ 1,340,857	$ 4,248,833	$ 7,363,647

Three Months Ended September 30, 2011

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 9,319,824	$ 611,423	$ -	$ 9,931,247
Cost of revenues (exclusive of depreciation and amortization)	8,436,781	383,676	-	8,820,457
Gross profit	883,043	227,747	-	1,110,790
Depreciation and amortization	91,502	9,634	-	101,136
Selling, general and administrative expenses	1,137,305	914,342	-	2,051,647
Advertising and marketing	-	1,614		1,614
Other expenses	40,087	24,446	-	64,533
Loss from continuing operations	$ (385,851)	$ (722,289)	$ -	$ (1,108,140)
Total assets	$ 2,924,130	$ 1,759,982	$ 25,834	$ 4,709,946

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Nine Months Ended September 30, 2012

	Carrier Services	Corporate Services and Other	Corporate and Unallocated	Consolidated
Revenues	$ 29,965,082	$ 1,749,023	$ -	$ 31,714,105
Cost of revenues (exclusive of depreciation and amortization)	27,083,520	1,089,276	-	28,172,796
Gross profit	2,881,562	659,747	-	3,541,309
Depreciation and amortization	252,677	33,926	-	286,603
Selling, general and administrative expenses	3,746,574	2,770,655	-	6,517,229
Advertising and marketing	543	7,505	-	8,048
Other expenses	314,953	69,943	-	384,896
Loss from continuing operations	$ (1,433,185)	$ (2,222,282)	$ -	$ (3,655,467)
Captial expenditures	$ 75,220	$ 2,073	$ 4,271	$ 81,564

Nine Months Ended September 30, 2011

	Carrier Services	Corporate Services	Corporate and Unallocated	Consolidated
Revenues	$ 29,080,026	$ 1,698,537	$ -	$ 30,778,563
Cost of revenues (exclusive of depreciation and amortization)	26,541,747	1,080,105	-	27,621,852
Gross profit	2,538,279	618,432	-	3,156,711
Depreciation and amortization	405,323	12,882	-	418,205
Selling, general and administrative expenses	3,433,213	2,785,178	-	6,218,391
Advertising and marketing	58	6,937	-	6,995
Other expenses (income)	46,296	12,420	-	58,716
Loss from continuing operations	$ (1,346,611)	$ (2,198,985)	$ -	$ (3,545,596)
Capital expenditures	$ 46,174	$ 1,981	$ 9,232	$ 57,387

12. Other Income and Expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Extinguishment of vendor liabilities	$ -	$ -	$ -	$ 75,000
Loss on sale of accounts receivable	(66,230)	(7,610)	(235,044)	(7,610)
Loss on disposal of property and equipment		(24,615)		(24,615)
Other	2,654	5,124	10,625	39,953
Total other (expenses) income	(63,576)	(27,101)	(224,419)	82,728

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 September 30, 2012, the Company had received $31,500 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 October 18, 2012, the Company amended its Articles of Incorporation by creating, and designating 21,240 shares of previously undesignated preferred stock as Series B-1 Cumulative Convertible Preferred Stock, par value $0.01 per share, (the "Series B-1 Preferred Stock").

Between October 22, 2012 and October 24, 2012, the Company entered into subscription agreements with 91 accredited investors (the "Investors"), pursuant to which the Company sold 6,027.75 investment Units consisting of (a) 6,027.75 shares of its newly designated Series B-1 Preferred Stock, (b) Fixed Warrants (the "Fixed Warrants") to purchase 22,013,915 shares of the Company's common stock (the "Fixed Warrant Shares"), and (c) Contingent Warrants (the "Contingent Warrants") to purchase 11,006,958 shares of the Company's common stock for gross proceeds of $6,027,750 (the "Offering").

Each share of Series B-1 Preferred Stock has a Stated Value of $1,000, and is convertible into a number of shares of the Company's common stock that is equal to the Stated Value divided by the volume-weighted-average price of the Company's common stock for the 10 trading days prior to the closing (the "Preferred Conversion Price"). Based upon that calculation, and subject to the other terms of the Series B-1 Preferred Stock, the Series B-1 Preferred Stock sold to the Investors is convertible into an aggregate of 55,034,647 shares of the Company's common stock (the "Conversion Shares").

The Fixed Warrants may be exercised at any time following the Share Authorization Date (as defined below), for a number of Warrant Shares that is equal to fifty (50%) percent of the Stated Value divided by 125% of the Preferred Conversion Price, as adjusted for stock splits, combinations and reclassifications (the "Fixed Warrant Exercise Price"). Each Fixed Warrant will be exercisable at the Fixed Warrant Exercise Price for a five-year term commencing on the date of issuance.

The Contingent Warrants contain an "Expiration Event" that was triggered on the filing by the Company with the Federal Communications Commission of a request for the approval of the transfer of the licenses and operating authorities associated with the pending acquisition of Network Billing Systems, LLC ("NBS"), or a similar business combination. As of the date of the closing of the Offering, the Company had filed for and received approval from the Federal Communications Commission for the transfer of such licenses and operating authorities related to NBS. As a result, an Expiration Event has occurred and the Contingent Warrants have expired and will not be exercisable.

The Series B-1 Preferred Stock may not be converted, and the Fixed Warrants may not be exercised, until the effective date of an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of the Company's Common Stock sufficient to permit all of the outstanding Series B-1 Preferred Stock and Fixed Warrants to be converted or exercised, as the case may be, into the Company's Common Stock (the "Share Authorization Date"). Under the terms set forth in the Offering, the Company is required, on or prior to December 24, 2012, to file a proxy statement with the Securities and Exchange Commission ("SEC") seeking stockholder authorization to increase the number of authorized shares of Common Stock. Subject to certain exceptions, the Company has also agreed that, within forty-five days following the Share Authorization Date, it will file a registration statement with the SEC registering the resale of the Conversion Shares and the Fixed Warrant Shares, and to use its reasonable commercial efforts to cause the registration statement to become effective within 180 days thereafter.

The Company has the right, without the consent of or action by holders of Series B-1 Preferred Stock, to cause all of the outstanding Preferred Shares to be automatically converted into Common Stock at the Preferred Conversion Price upon the later to occur of (a) the Share Authorization Date, or (b) April 24, 2013. In addition, cumulative dividends at rates ranging from 8% per annum to 12% per annum are payable on the outstanding Series B-1 Preferred Stock only in the event that the Share Authorization Date has not occurred prior to October 24, 2013. Holders of Series B-1 Preferred Stock have liquidation rights that are senior to that of holders of the Company's outstanding Series A-1, A-2 and A-4 Preferred Stock, and holders of Series B-1 Preferred Stock are entitled to vote as one group with holders of Common Stock on all matters brought to a vote of holders of Common Stock (with each share of Series B-1 Preferred Stock being entitled to that number of votes into which the registered holder could converted the Series B-1 Preferred Stock on the record date for the meeting at which the vote will be cast).

The Offering was exempt from registration under the Securities Act of 1933, as amended, by reason of Section 4(2) and Rule 506 of Regulation D thereunder. The Company incurred approximately $295,000 of expenses, including commissions and legal fees, related to the offering. The net proceeds of approximately $5,732,000 were used to:

- Repay the $250,000 the Company borrowed from Marvin Rosen and and another director of the Company on September 17, 2012.
- Repay the $300,000 unrelated party loan the Company received on June 22, 2012.
- Repay approximately $173,000 in satisfaction of all amounts due under the forbearance agreement with TD Bank.
- Fund a portion of the purchase price of the acquisition of the Acquired Business, as defined below; and
- For general corporate purposes.

Between October 4, 2012 and October 19, 2012 the Company repaid $90,000 of loans evidenced by promissory notes from Marvin Rosen.

On October 22, 2012, Marvin Rosen converted $724,000 of loans evidenced by promissory notes into 724 investment Units on the same terms as those who participated in the Offering. Also on October 22, 2012, Marvin Rosen transferred loans receivable from the Company evidenced by promissory notes in the amount of $26,000 to Matthew Rosen, the Company's Chief Executive Officer. On that same date, Matthew Rosen converted the promissory note transferred to him and an additional $74,000 owed to him by the Company into 100 investment Units on the same terms as those who participated in the Offering.

On October 29, 2012 the Company completed the acquisition of all of the issued and outstanding membership interests of Network Billing Systems, LLC ("NBS") and substantially all of the assets of NBS' affiliate, Interconnect Services Group II LLC ("ISG"), and thereby acquired the business operated by NBS and ISG (the "Acquired Business"). Definitive agreements to purchase the Acquired Business were entered into on January 30, 2012, and amended on June 6, 2012, August 20, 2012, September 21, 2012 and October 24, 2012 (the "Purchase Agreements").

The Acquired Business is a Unified Communications and cloud services provider offering a wide range of hosted voice and data services, Internet and data network solutions to small, medium and large businesses in the United States. For the year ended December 31, 2011, the Acquired Business had revenues of approximately $26.5 million and net income of approximately $3.1 million.

In accordance with the terms of the Purchase Agreements, the Company purchased the Acquired Business, including $500,000 of cash and the assumption of certain related liabilities. The aggregate purchase price for the outstanding membership interests of NBS and the assets of ISG, net of the assumed liabilities, was $19.6 million (the "Purchase Price"), consisting of $17.75 million in cash, $0.6 million to be evidenced by promissory notes payable to the sellers of the NBS membership interests (the "Seller Notes") and 11,363,636 shares of restricted common stock of the Company valued at $1.25 million. The Seller Notes bear interest at the rate of 3% per annum and are payable in 14 equal monthly installments commencing January 31, 2013. The Purchase Price is subject to adjustment based on certain working capital measurements described in the Purchase Agreements, and 10% of the cash portion of the Purchase Price is being held in escrow for a period of up to one year as collateral to secure the accuracy of the sellers' representations, warranties and covenants contained in the Purchase Agreements.

In connection with its acquisition of the Acquired Business, the Company entered into an Employment and Restrictive Covenant Agreement (the "Kaufman Employment Agreement") with Jonathan Kaufman, the principal operating officer of the Acquired Business and Manager of NBS, who has become the President of the Company's combined Corporate Services business segment. Additionally, effective with the consummation of the Acquired Business, the Company entered into a 5-year lease agreement (the "Lease") with Manchester Realty, LLC, a company controlled by Jonathan Kaufman, to continue the occupancy of NBS' principal offices in Wayne, NJ. The lease is for approximately 11,000 square feet of office space, under which the Company is required to pay annual rent to the landlord of approximately $120,000, with annual increases of approximately 7-8% per year. The Company believes that the terms of the Lease, irrespective of the annual rent increases, are no less favorable to the Company than what could have been obtained from an unaffiliated third party.

The cash portion of the Purchase Price was largely financed through the issuance by FNAC of $16.5 million of senior notes as discussed below.

Contemporaneously with the completion of the acquisition of the Acquired Business, the Company, FNAC and NBS entered into, and consummated the transactions contemplated by, a Securities Purchase Agreement and Security Agreement (the "SPA") with Praesidian Capital Opportunity Fund III, LP, Praesidian Capital Opportunity Fund III-A, LP and Plexus Fund II, LP (the "Lenders"). Under the SPA the FNAC sold the Lenders (a) five-year Series A senior notes (the "Series A Notes") in the aggregate principal amount of $6.5 million, bearing interest at the rate of 10.0% annually, and (b) five-year Series B senior notes (the "Series B Notes") in the aggregate principal amount of $10.0 million bearing interest at the rate of 11.5% annually (collectively, the "Notes").

Each of the Notes provides for the payment of interest on a monthly basis commencing October 31, 2012. The Series A Notes provide for monthly principal payments in the amount of $52,083 each, beginning September 30, 2013, with the outstanding principal balance being due and payable on October 27, 2017. The outstanding principal balance of the Series B Notes becomes due and payable on October 27, 2017.

The obligations to the Lenders are secured by first priority security interests on all of the assets of FNAC and NBS, as well as the capital stock of each of the Company's subsidiaries, and by second priority security interests in the accounts receivable and other assets of the Company's Carrier Services business segment. The SPA contains a number of affirmative and negative covenants, including but not limited to, restrictions on paying indebtedness subordinate to the Notes, incurring additional indebtedness, making capital expenditures, dividend payments and cash distributions by subsidiaries. In addition, at all times while the Notes are outstanding, the Company is required to maintain a minimum cash bank balance of no less than $1 million in excess of any amounts outstanding under a permitted working capital line of credit and in excess of any and all cash balances held by NBS. The SPA also requires on-going compliance with various financial covenants, including leverage ratio, fixed charge coverage ratio and minimum levels of earnings before interest, taxes, depreciation and amortization. Failure to comply with any of the restrictive or financial covenants could result in an event of default and accelerated demand for repayment of the Notes.

In connection with the sale of the Notes to the Lenders, the Company issued a nominal warrant to the Lenders to purchase 13,325,000 shares of Fusion common stock (the "Warrant"). The Warrant is exercisable from the date of issuance until October 29, 2022, at an exercise price of $.01 per share. The Company has agreed to pay the exercise price on behalf of the Lenders at the time of exercise. Commencing upon the earlier of a change in control, the repayment of the Notes in full or October 29, 2017, in the event that Fusion's common stock does not meet certain liquidity thresholds with respect to trading volume and market price, then Fusion would be required to repurchase the Warrant or the shares issued upon exercise of the Warrant at a repurchase price based upon the formulas set forth therein. The Company incurred approximately $554,000 of expenses related to this transaction, including a transaction fee paid to the Lenders in the amount of $330,000.

In conjunction with FNAC's sale of the Notes to the Lenders, Marvin Rosen entered into an Intercreditor and Subordination agreement with the Company and the Lenders (the "Subordination Agreement"), whereby Mr. Rosen agreed, among other things, that the amounts owed to him by the Company would be subordinate to the Notes and the Company's other obligations to the Lenders. In connection with this agreement, on October 25, 2012 Mr. Rosen agreed to consolidate the principal amount all of his outstanding promissory notes aggregating to $3,922,364 into a new single note (the "New Rosen Note"). The New Rosen Note is not secured, pays interest monthly at an annual rate of 7% per annum, and matures 60 days after the Notes are paid in full.

In conjunction with the Company's entering into the SPA with the Lenders, the Company and the Lenders entered into an intercreditor agreement with the purchaser of the Company's accounts receivable, whereby the purchaser of the receivables retains its first priority security interest in the accounts receivable of the Company's Carrier Services business segment.

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. Through our Corporate Services business segment, we offer a full portfolio of Unified Communications and cloud services, including Voice over Internet Protocol ("VoIP") solutions, private network services, broadband Internet access, a variety of cloud services and other advanced services. Our 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. Through our Carrier Services business segment, we offer domestic and international voice termination services to 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. These services utilize VoIP termination, as well as traditional time division multiplex ("TDM") technology. We have focused on growing our existing carrier 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, our growth strategy is focused primarily on the higher margin Corporate Services business segment and marketing to small and mid-sized businesses, as well as larger enterprises, using both our direct and partner distribution channels. This will allow us to continue 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 October 29, 2012, we completed the acquisition of the business currently operated by Network Billing Systems, LLC and Interconnect Services Group II LLC (collectively, "NBS"). NBS is a Unified Communications and cloud services provider offering a wide range of hosted voice and data products, as well as Internet, data networking and cloud services solutions to small, medium and large businesses in the United States. For the year ended December 31, 2011, the Acquired Business had revenues of approximately $26.5 million and net income of approximately $3.1 million. For the nine months ended September 30, 2012, the Acquired Business had preliminary unaudited revenues of approximately $20.3 million and unaudited preliminary net income of approximately $2.7 million.

In accordance with the terms of the purchase agreements to acquire NBS, we acquired $500,000 of cash and assumed the liabilities associated with the day to day operations of NBS. The aggregate purchase price for the outstanding membership interests of NBS and the assets of ISG, net of the assumed liabilities, was $19.6 million (the "Purchase Price"), consisting of $17.75 million in cash, $0.6 million to be evidenced by promissory notes payable to the sellers of the NBS membership interests (the "Seller Notes") and 11,363,636 shares of our restricted common stock valued at $1.25 million. The Seller Notes bear interest at the rate of 3% per annum and are payable in 14 equal monthly installments commencing January 31, 2013. The Purchase Price is subject to adjustment based on certain working capital measurements described in the Purchase Agreements, and 10% of the cash portion of the Purchase Price is being held in escrow for a period of up to one year as collateral to secure the accuracy of the sellers' representations, warranties and covenants contained in the Purchase Agreements. The cash portion of the Purchase Price was largely financed through the issuance by Fusion NBS Acquisition Corp., our wholly owned subsidiary, ("FNAC") of $16.5 million of senior notes (see **"Liquidity and Capital Resources"**).

Effective as of the date of the acquisition, NBS became our wholly owned subsidiary, and we intend to integrate our existing Corporate Services business segment with NBS' current business. In connection with our acquisition of NBS, we entered into an Employment and Restrictive Covenant Agreement with Jonathan Kaufman, the principal operating officer of NBS, and Mr. Kaufman became the President of our combined Corporate Services business segment.

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 both segments as appropriate. We expect that significant synergistic opportunities will arise as we integrate the NBS business with our existing Corporate Services business segment.

Our Outlook

Our Carrier Services operations were impacted by the effects of Hurricane Sandy in the Northeast region of the United States in late October of 2012. The severe weather conditions directly affected the ability of many of our customers and vendors to connect to us. As a result, we were unable to generate the same revenues and gross profit that we would have generated under normal conditions. In addition, it could be several weeks before all of our customers are able to route their traffic back to our network following the disruption. Although we do carry business interruption insurance, it is not clear at this time whether our losses will be completely covered by insurance.

Our ability to grow our business, fully implement our business plan and achieve profitability is dependent upon our ability to raise additional capital and successfully integrate the acquired NBS business. In addition to the costs associated with expanding the portfolio of Unified Communications and cloud services products offered by our Corporate Services business, 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 these initiatives, and if we successfully complete the integration 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 September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Revenues	$ 9,959,965	100.0%	$ 9,931,247	100.0%	$31,714,105	100.0%	$30,778,563	100.0%
Cost of revenues, exclusive of depreciation and amortization	9,164,247	92.0%	8,820,457	88.8%	28,172,796	88.8%	27,621,852	89.7%
Gross profit	795,718	8.0 %	1,110,790	11.2 %	3,541,309	11.2 %	3,156,711	10.3 %
Operating expenses:								
Depreciation and amortization	94,426	0.9%	101,136	1.0%	286,603	0.9%	418,205	1.4%
Selling general and administrative	2,215,736	22.2%	2,051,648	20.7%	6,517,229	20.5%	6,218,391	20.2%
Advertising and marketing	15	0.0%	1,613	0.0%	8,048	0.0%	6,995	0.0%
Total operating expenses	2,310,177	23.2%	2,154,397	21.7%	6,811,880	21.5%	6,643,591	21.6%
Operating loss	(1,514,459)	-15.2%	(1,043,607)	-10.5%	(3,270,571)	-10.3%	(3,486,880)	-11.3%
Interest expense, net	(56,861)	-0.6%	(37,432)	-0.4%	(160,477)	-0.5%	(141,444)	-0.5%
Other (expenses) income	(63,576)	-0.6%	(27,101)	-0.3%	(224,419)	-0.7%	82,728	0.3%
Total other (expenses) income	(120,437)	-1.2%	(64,533)	-0.6%	(384,896)	-1.2%	(58,716)	-0.2%
Loss from continuing operations	$(1,634,896)	-16.4%	$(1,108,140)	-11.2%	$ (3,655,467)	-11.5%	$ (3,545,596)	-11.5%

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

Revenues

Consolidated revenues were $10.0 million during the three months ended September 30, 2012, compared to $9.9 million during the three months ended September 30, 2011, an increase of 0.3%. Revenues for the Carrier Services segment were $9.4 million during the three months ended September 30, 2012, compared to $9.3 million during the three months ended September 30, 2011, an increase of $0.1 million, or 1.1%. During the third quarter of 2012 we experienced a 62% increase in minutes transmitted over our network, the effect of which was mostly offset by a 38% decrease in the blended rate per minute of the traffic terminated. Revenues for the Corporate Services segment of $0.6 million reflect a decrease of $35,000 compared with the three months ended September 30, 2011.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $9.2 million during the three months ended September 30, 2012, compared to $8.8 million during the three months ended September 30, 2011, an increase of $0.3 million, or 3.9%. Consolidated gross margin for the third quarter of 2012 was 8.0 %, compared to 11.2% for the third quarter of 2011. Our operations were adversely impacted during the third quarter due to severe liquidity constraints and a one-time event resulting from errors in manually entering vendor rates and routing codes to our existing rate and routing database system during our conversion to a new system.

The gross margin for the Carrier Services segment was 6.0% in the third quarter of 2012, compared to 9.5% in the third quarter of 2011, resulting in a decline in gross profit of $315,000 for the three months ended September 30, 2012 compared to the same period of a year ago. The decrease was due to the aforementioned transition event with our conversion to a new rate and routing system, as well as the difficulties in maintaining available routes due to significant cash flow challenges as the closing of our planned financing transaction did not take place until October of 2012. We anticipate that the effects of Hurricane Sandy will further impact our liquidity for the time it takes for our Carrier Services customers to route their traffic back to our network following the disruptions caused by the storm. Gross margin for the Corporate Services segment was 40.4% in the three months ended September 30, 2012, compared with 37.2% during the three months ended September 30, 2011.

Depreciation and Amortization

Depreciation and amortization decreased by 6.6% to $94,000 during the three months ended September 30, 2012, as compared to $101,000 in the three months ended September 30, 2011, as more assets became fully depreciated during the period than were placed into service.

SG&A

SG&A increased by $0.2 million during the third quarter of 2012 as compared to the third quarter of 2011. The increase was primarily due to professional fees incurred in connection with the NBS transaction and higher personnel related costs due to increased headcount, as well as increases in consulting expenses, partially offset by lower bad debt expense.

Operating Loss

Our operating loss of $1.5 million for the three months ended September 30, 2012 represents an increase of $471,000 from the three months ended September 30, 2011, which is due to the decrease in gross profit and increase in SG&A.

Interest Expense

Interest expense, net of interest income, was $57,000 for the three months ended September 30, 2012 compared to $37,000 for the same period of a year ago. The increase is due to higher average debt balances during the period.

Other (Expense) Income

Total other expenses, net of other income, increased by $56,000 in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The increase is due to the higher loss on the sale of accounts receivable in 2012, as our accounts receivable financing arrangement commenced in September of 2011.

Net Loss

The net loss of $1.6 million for the third quarter of 2012 represents an increase of $0.5 million, or 47%, from the same period of a year ago due to the increases in operating loss and the loss on the sale of accounts receivable.

Nine Months Ended September 30, 2012 Compared with Nine Months Ended September 30, 2011

Revenues

Consolidated revenues were $31.7 million during the nine months ended September 30, 2012, compared to $30.8 million during the nine months ended September 30, 2011, an increase of $0.9 million, or 3.0%. Carrier Services revenues of $30.0 million represents an increase of $0.9 million, or 3.0%, over the same period of a year ago, as a 77% increase in number of minutes transmitted over our network was largely offset by a 42% decrease in the blended rate per minute of traffic terminated. Revenues for the Corporate Services segment increased by $50,000, or 3.0%, to $1.7 million during the nine months ended September 30, 2012.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $28.2 million during the first nine months of 2012, compared to $27.6 million during the first nine months of 2011. Consolidated gross margin for the nine months ended September 30, 2012 was 11.2%, compared to 10.3% 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 9.6% in the first nine months of 2012, compared to 8.7% in the first nine months of 2011, as the 3.0% increase in revenue was accompanied by a 2.0% increase in cost of revenues. During the first six months of 2012 we had experienced significantly improved margins at this business segment by moving toward a more strategic bilateral business, locking in both inbound and outbound traffic over our network for up to 30 days at a time. However, our significant liquidity constraints in the third quarter negatively impacted our ability to pay key vendors on a timely basis, hindering our ability to continue this strategy into the third quarter. The gross margin for the Corporate Services segment during the first nine months of 2012 was 37.7%, compared with 36.4% during the same period of a year ago.

Depreciation and Amortization

Depreciation and amortization decreased to $0.3 million for the nine months ended September 30, 2012 from $0.4 million during the nine months ended September 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 first nine months of 2012 compared to the same period for 2011. The increase was mainly due to professional fees incurred as a result of the 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 $3.3 million for the nine months ended September 30, 2012 represents a decrease of $0.2 million, or 6.2%, from the nine months ended September 30, 2011. The decrease was mainly attributable to the higher gross profit generated by the Carrier Services segment, and lower depreciation and amortization expense, partially offset by the increases in SG&A.

Interest Expense

Interest expense, net of interest income, was $160,000 for the nine months ended September 30, 2012, as compared to $141,000 in the same period of a year ago. The increase is due to higher average debt balances in 2012.

Other (Expense) Income

Total other expenses, net of other income, was $224,000 for the first nine months of 2012, compared to other income of $83,000 in the first nine 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 $235,000 in the first nine months of 2012, as compared to $8,000 in the first nine months of 2011.

Net Loss

Our net loss increased from $3.5 million during the first nine months of 2011 to $3.7 million during the first nine months of 2012, as the slightly reduced operating loss was more than offset by the increases in other expenses discussed above.

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 September 30, 2012, we had a stockholders' deficit of $12.9 million, as compared to $10.6 million at December 31, 2011, and a working capital deficit of $14.0 million, as compared to $12.0 million at December 31, 2011. Based on the transactions we completed in October, as more fully described below, we believe that our current cash on hand and cash we expect to generate from future operations will be sufficient to fund our operations for the next 12 months. We may, however, be required to raise additional capital to support our business plan. 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 October of 2012 we entered into subscription agreements with 91 accredited investors pursuant to which we issued 6,027.75 shares of newly designated Series B-1 Preferred Stock and warrants to purchase 22,013,915 shares of our common stock and received gross proceeds of $6.0 million (the "October 2012 Offering"). Each share of Series B-1 Preferred Stock has a Stated Value of $1,000 and, subject to the other terms of the Series B-1 Preferred Stock as more fully described in note 14 to the consolidated financial statements accompanying this report, the Series B-1 Preferred Stock issued in the October 2012 Offering is convertible into an aggregate of 55,034,647 shares of the our common stock.

The October 2012 Offering was exempt from registration under the Securities Act of 1933, as amended, by reason of Section 4(2) and Rule 506 of Regulation D thereunder. The Company incurred approximately $295,000 of expenses, including commissions and legal fees, related to the offering. The net proceeds of approximately $5,732,000 were used to:

- Repay the $250,000 loan we received on September 17, 2012 from two of our directors.
- Repay the $300,000 loan we received on June 22, 2012 from an unrelated party.
- Repay approximately $173,000 in satisfaction of all amounts due under the forbearance agreement with TD Bank (as more fully described in note 7 to the consolidated financial statements).
- Fund a portion of the purchase price of the NBS acquisition transaction.
- Provide $500,000 of working capital funding to NBS; and
- For general corporate purposes.

Between October 4, 2012 and October 19, 2012 we repaid $90,000 of loans evidenced by promissory notes from Marvin Rosen.

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. Although we were able to close the October 2012 Offering, we expect that we will continue to utilize the agreement with Prestige to supplement our working capital needs until such time as we can establish a traditional working capital line of credit.

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 was paid 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 the accounts receivable of our Carrier Services business segment.

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 September 30, 2012, we raised approximately $1.1 million from the sale of our securities through private placement financings, and as of September 30, 2012 approximately $1.1 million of our outstanding accounts receivable had been sold to Prestige.

On October 29, 2012 we completed the acquisition of NBS. Contemporaneously with the completion of the acquisition transaction, we entered into, and consummated the transactions contemplated by, a Securities Purchase Agreement and Security Agreement (the "SPA") with Praesidian Capital Opportunity Fund III, LP, Praesidian Capital Opportunity Fund III-A, LP and Plexus Fund II, LP (the "Lenders"). Under the SPA the we sold the Lenders (a) five-year senior notes in the aggregate principal amount of $6.5 million, bearing interest at the rate of 10.0% annually (the "Series A Notes"), and (b) five-year senior notes in the aggregate principal amount of $10.0 million bearing interest at the rate of 11.5% annually (the "Series B Notes" and, collectively, the "Notes"). The proceeds from the sale of the Notes were used to finance the majority of the cash portion of the purchase price of NBS.

Each of the Notes provides for the payment of interest on a monthly basis commencing October 31, 2012. The Series A Notes provide for monthly principal payments in the amount of $52,083 each, beginning September 30, 2013, with the outstanding principal balance being due and payable on October 27, 2017. The outstanding principal balance of the Series B Notes becomes due and payable on October 27, 2017.

The obligations to the Lenders are secured by first priority security interests on all of the assets of NBS, as well as the capital stock of each of our direct and indirect subsidiaries, and by second priority security interests in the accounts receivable and other assets of our Carrier Services business segment. The SPA contains a number of affirmative and negative covenants, including but not limited to, restrictions on paying indebtedness subordinate to the Notes, incurring additional indebtedness, making capital expenditures, dividend payments and cash distributions by subsidiaries. In addition, at all times while the Notes are outstanding, we are required to maintain a minimum cash bank balance of no less than $1 million in excess of any amounts outstanding under a permitted working capital line of credit and in excess of any and all cash balances held by NBS. The SPA also requires on-going compliance with various financial covenants, including leverage ratio, fixed charge coverage ratio and minimum levels of earnings before interest, taxes, depreciation and amortization. Failure to comply with any of the restrictive or financial covenants could result in an event of default and accelerated demand for repayment of the Notes. We incurred approximately $554,000 of expenses related to this transaction, including a transaction fee paid to the Lenders in the amount of $330,000.

In conjunction with the sale of the Notes to the Lenders, Marvin Rosen entered into an Intercreditor and Subordination agreement with us and the Lenders (the "Subordination Agreement"), whereby Mr. Rosen agreed, among other things, that the amounts owed to him by the Company would be subordinate to the Notes and our other obligations to the Lenders. In connection with this agreement, on October 25, 2012 Mr. Rosen agreed to consolidate the principal amount all of his outstanding promissory notes aggregating to $3,922,364 into a new single note (the "New Rosen Note"). The New Rosen Note is unsecured, pays interest monthly at an annual rate of 7% per annum, and matures 60 days after the Notes are paid in full. In view of the subordination of our obligations to Mr. Rosen to those of the Lenders, we do not expect to receive new loans or additional short term advances from Mr. Rosen to fund any of our future liquidity needs.

While NBS has historically generated positive cash flow from operations and we believe that with the acquisition of NBS we will be able to generate positive cash flow from operations on a consolidated basis, the terms of the SPA prohibit any cash distributions from NBS to us.

On February 16, 2012, a landlord over premises leased by us 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. To date, the amount of the judgment has been satisfied. However, because rent payments for September, October and November of 2012 remain outstanding, the Stipulation agreement remains in effect.

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

	Nine Months Ended September 30,	
	2012	**2011**
Cash from continuing operations:		
Cash used in operating activities	$ (1,693,856)	$ (3,132,533)
Cash used in investing activities	(81,989)	(61,877)
Cash provided by financing activities	5,501,683	3,240,670
Increase (decrease) in cash and cash equivalents from continuing operations	3,725,838	46,260
Cash from discontinued operations	(1,490)	(44,755)
Net increase (decrease) in cash and cash equivalents	3,724,348	1,505
Cash and cash equivalents, beginning of period	3,047	20,370
Cash and cash equivalents, end of period	$ 3,727,395	$ 21,875

Cash used in operating activities was $1.7 million during the first nine months of 2012, compared to $3.1 million in the first nine months of 2011. The decrease is mainly due to an increase in accounts payable of $1.1 million and reductions in accounts receivable.

Cash used in investing activities was $82,000 in the first nine months of 2012 compared to $62,000 in the first nine 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 and for capital expenditures at NBS.

Cash provided by financing activities was $5.5 million in the first nine months of 2012, as compared to $3.2 million in the first nine months of 2011. During the first nine months of 2012, we raised $1.1 million from the sale of our common stock, received $0.5 million in new loans from Mr. Rosen and another related party and $0.3 million from a loan from a third party guaranteed by Mr. Rosen. We also received $3.9 million in connection with our private placement efforts, the proceeds from which remained in escrow as of September 30, 2012. During the first nine months of 2011, we received $3.0 million in new loans from Mr. Rosen, and raised $0.7 million from the sale of our common stock.

Sources of Liquidity

As of September 30, 2012, we had cash and cash equivalents of approximately $3.8 million, substantially all of which remained in escrow, and accounts receivable of approximately $1.7 million. As of October 31, 2012, our consolidated cash balance, including cash on hand at NBS, was approximately $3.2 million. Our long-term liquidity is dependent on our ability to attain future profitable operations in both of our business segments. We cannot predict if and when we will be able to attain future profitability in our Carrier Services business segment.

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.

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 nine 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 nine months ended September 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 September 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 September 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 September 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 September 30, 2012, we had a working capital deficit of approximately $14.0 million and a stockholders' deficit of approximately $12.9 million. We continue to sustain losses from operations and for the nine months ended September 30, 2012 and 2011 we incurred net losses applicable to common stockholders of approximately $4.0 million and $3.9 million, respectively. In addition, we did not generate positive cash flow from operations for the years ended December 31, 2011 and 2010 or for the nine months ended September 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.

The effects of natural disasters such as Hurricane Sandy or other events over which we have no control could significantly disrupt our operations and could have a material adverse impact on our business.

Our Carrier Services operations were impacted by the effects of Hurricane Sandy in the Northeast region of the United States in late October of 2012. The severe weather conditions directly affected the ability of many of our customers and vendors to connect to us. As a result, we were unable to generate the same revenues and gross profit that we would have generated under normal conditions. Any future disruptions to the operation of our network, including acts of war, terrorism or other force majeure, could have a material adverse impact on our liquidity, financial condition and results of operations. Although we do carry business interruption insurance, we cannot assure you that our losses in the event of a natural disaster or other force majeure event would be completely covered by insurance.

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 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. In view of the subordination of our obligations to Mr. Rosen to those of the Lenders, we do not expect to receive new loans or additional short term advances from Mr. Rosen to fund any of our future liquidity needs.

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.

Our ability to grow our Carrier Services business 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 related to our Carrier Services business. 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 could 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.

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 177,795,987 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 October 31, 2012, unexercised options to purchase 8,135,761 shares of our common stock, unexercised warrants to purchase 89,766,573 shares of our common stock and outstanding preferred stock, including accumulated dividends, convertible into 70,002,973 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, and 6,861.75 shares of our Series B-1 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 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 ACQUISITION OF NBS

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 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 though our acquisition of NBS has been consummated, there is no assurance that the acquisition will be accretive to our earnings or otherwise improve our results of operations.

Failure to comply with the financial and other covenants contained in our senior debt agreements is an event of default under these agreements.

Our acquisition of NBS was financed primarily through the issuance of senior notes in the aggregate principal amount of $16.5 million. The terms of the senior notes contain a number of affirmative and negative covenants, including but not limited to, restrictions on paying indebtedness subordinate to the senior notes, incurring additional indebtedness, making capital expenditures, dividend payments and cash distributions by subsidiaries. In addition, at all times while the senior notes are outstanding, we are required to maintain a minimum cash bank balance of no less than $1 million in excess of any amounts outstanding under a permitted working capital line of credit as well as any cash held at NBS. In addition, we are also required to comply with various financial covenants, including leverage ratio, fixed charge coverage ratio and minimum levels of earnings before interest, taxes, depreciation and amortization. Failure to comply with any of the restrictive or financial covenants could result in an event of default and accelerated demand for repayment of the senior notes. We do not have the financial resources to repay the senior notes if they are accelerated.

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

None

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
3.1(f)	Certificate of Designation of the Rights and Preferences of the Series B-1 Preferred Stock
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.
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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.

November 14, 2012

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

November 14, 2012

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

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Exhibits

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Exhibit 3.1(f)

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

FORM OF CERTIFICATE OF DESIGNATIONS OF PREFERENCES, RIGHTS AND LIMITATIONS OF SERIES B-1 CUMULATIVE CONVERTIBLE PREFERRED STOCK

(Pursuant to Sections 102 and 265 of the Delaware General Corporation Law)

Pursuant to Section 151 of the Delaware General Corporation Law and Article Fourth Section 2 of the Certificate of Incorporation (as amended, the "Certificate of Incorporation" of Fusion Telecommunications International, Inc. (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, hereby certifies that the following resolution was duly adopted by the board of directors of the Corporation (the "Board") effective as of May 18, 2012 pursuant to authority conferred upon the Board by the Certificate of Incorporation, which authorizes the issuance of up to ten million (10,000,000) shares of preferred stock, par value $.01 per share.

RESOLVED, that pursuant to authority expressly granted to and vested in the Board and pursuant to the provisions of the Certificate of Incorporation, the Board hereby creates a series of preferred stock, herein designated and authorized as the Series B-1 Convertible Preferred Stock, par value $0.01 per share, which shall consist of twenty-one thousand two hundred and forty (21,240) of the ten million (10,000,000) shares of preferred stock (the Series B-1 Preferred Stock") which the Corporation now has authority to issue, and the Board hereby fixes the powers, designations and preferences and the relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations and restrictions thereof as follows:

Section 1. Definitions. For the purposes hereof, the following terms shall have the following meanings:

"Acquiring Person" has the meaning set forth in Section 7(c) hereof.

"Board" has the meaning set forth in the preamble hereof.

"Business Day" means any day on which the Common Stock may traded on a Trading Market, or, if not admitted for trading, any day other than a Saturday, Sunday or holiday on which banks in New York City are required or permitted to be closed.

"Capital Stock" means (i) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (ii) with respect to any Person that is not a corporation, any and all partnership, limited partnership, limited liability company or other equity interests of such Person.

"Certificate of Incorporation" has the meaning set forth in the Preamble hereof.

"Change In Control" has the meaning set forth in Section 7(c) hereof.

"Closing Date" means any day on which a closing of the Offering is conducted as and the proceeds from such closing are disbursed.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Corporation's common stock, par value $0.01 per share, and any Capital Stock for or into which such Common Stock hereafter is exchanged, converted, reclassified or recapitalized by the Corporation or pursuant to a Change of Control to which the Corporation is a party (or, at the election of the Acquiring Person, the Capital stock of any Acquiring Person from and after the consummation of a Change of Control).

"Corporation" means Fusion Telecommunications International, Inc., a Delaware corporation (or, if, as, and when applicable, any Acquiring Person from and after the consummation of a Change of Control).

"Company Conversion Notice" has the meaning set forth in Section 6(d).

"Company Conversion Right" has the meaning set forth in Section 6(d).

"Contingent Warrant(s)" means the contingent warrants included in the Units being sold in the Offering.

"Conversion Date" has the meaning set forth in Section 6(a).

"Conversion Shares" means, collectively, the shares of Common Stock into which the shares of Series B-1 Preferred Stock are convertible in accordance with the terms hereof.

"Conversion Shares Registration Statement" means a registration statement that meets the requirements of the Registration Rights Agreement and registers the resale of all Conversion Shares by the Holder, who shall be named as a "selling stockholder" thereunder, all as provided in the Registration Rights Agreement.

"Dividend Event" shall mean an insufficient number of shares of Fusion Common Stock available to permit all of the then outstanding shares of Series B-1 Preferred Stock to be converted and all of the then outstanding Fixed Warrants and Contingent Warrants to be exercised, occurring at any time after one year following the Final Closing.

"Effective Date" means the date that the Conversion Shares Registration Statement, if any, is declared effective by the Commission.

"Escrow Agent" means Bank of New York or any successor escrow agent for the Offering.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Warrant(s)" means the fixed warrants included in the Units being sold in the Offering.

"Final Closing" means the Closing Date after which the Corporation ceases to offer for sale the Series B-1 Preferred Stock.
"Holder" has the meaning set forth in Section 2 hereof.

"Junior Securities" means Capital Stock that, with respect to dividends and distributions upon Liquidation, ranks junior to the Series B-1 Preferred Stock, including but not limited to Common Stock and any other class or series of Capital Stock issued by the Corporation or any Subsidiary of the Corporation on or after the Original Issue Date, but excluding any Parity Securities and Senior Securities issued (i) to Holders of the Series B-1 Preferred Stock, (ii) with the approval of the Holders of a Majority of the Series B-1 Preferred Stock or (iii) upon the conversion, redemption or exercise of securities described in clause (i) or (ii) in accordance with the terms thereof.

"Liquidation" means the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided, however, that a consolidation, merger or share exchange shall not be deemed a Liquidation, nor shall a sale, assignment, conveyance, transfer, lease or other disposition by the Corporation of all or substantially all of its assets, which does not involve a substantial distribution by the Corporation of cash or other property to the holders of Common Stock, be deemed to be a Liquidation.

"Majority of the Series B-1 Preferred Stock" means more than fifty (50%) percent of the then outstanding shares of the Series B-1 Preferred Stock.

“Memorandum” means the Corporation’s Private Placement Memorandum dated May 15, 2012

“Offering” means the Corporation’s private offering of up to $18,000,000 in units of the Corporation consisting of Series B-1 Preferred Stock, Fixed Warrants and Contingent Warrants, pursuant to the Memorandum.

“Original Issue Date” shall mean the date of the first issuance of any shares of the Series B-1 Preferred Stock regardless of the number of transfers of any particular shares of Series B-1 Preferred Stock and regardless of the number of certificates which may be issued to evidence such Series B-1 Preferred Stock.

"Parity Securities" means any class or series of Capital Stock that, with respect to dividends or distributions upon Liquidation, is pari passu with all “Series B-1 Preferred Stock. For the avoidance of doubt, each series of Series B Preferred Shares is a Parity Security with respect to each other series of Series B Preferred Shares.

“Person” means a corporation, an association, a partnership, a limited liability company, a business association, an individual, a government or political subdivision thereof or a governmental agency.

"Parent" shall mean any corporation (other than the Acquiring Person) in an unbroken chain of corporations ending with the Acquiring Person, provided each corporation in the unbroken chain (other than the Acquiring Person) owns, at the time of the determination, stock possessing fifty (50%) percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“Preferred Conversion Rate” has the meaning set forth in Section 6(a).

“Registration Rights Agreement” means the Registration Rights Agreement, dated as of the Closing Date, to which the Corporation and the original Holder are parties, as amended, modified or supplemented from time to time in accordance with its terms.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Senior Securities" means any class or series of Capital Stock that, with respect to dividends or distributions upon Liquidation, ranks senior to the Series B-1 Preferred Stock.

“Series B-1 Preferred Stock” shall have the meaning set forth in Section 2.

“Share Authorization Date” shall mean the effective date of the amendment to the Corporation’s Certificate of Incorporation filed with Secretary of State of the State of Delaware increasing the number of authorized shares of the Corporation’s Common Stock to such amount as shall permit all of the outstanding shares of Series B-1 Preferred Stock, Fixed Warrants and Contingent Warrants to be converted or exercised into the Corporation’s Common Stock.

“Stated Value” is an amount equal to one thousand dollars ($1,000) per share of the Series B-1 Preferred Stock plus any accrued and unpaid dividends, whether or not declared and whether or not earnings are available in respect of such dividends. In the event the Corporation shall declare a distribution on the Common Stock payable in securities or property other than cash, the value of such securities or property will be the fair market value. Any securities shall be valued as follows: (i) if traded on a Trading Market, the value shall be deemed to be the VWAP over the ten (10) Trading Days immediately prior to the period ending three (3) calendar days prior to such declaration or; (ii) if the Common Stock is not then listed or quoted on a Trading Market and if prices for the Common Stock are then reported in the "OTC Markets Pink Sheets" published by OTC Markets (or a similar organization or agency succeeding to its functions of reporting prices), the volume weighted average of the five most recent bid prices per share of the Common Stock so reported; or (ii) in all other cases, the fair market value of a share of Common Stock as determined in good faith by the Corporation’s Board.

“Subsidiary" shall mean any corporation at least fifty (50%) percent of whose outstanding voting stock shall at the time be owned directly or indirectly by the Acquiring Person or by one or more Subsidiaries.

“Trading Day” means a day on which the Common Stock is traded on a Trading Market.

“Trading Market” means the principal U.S. national securities exchange (as defined in the Exchange Act) on which the Common Stock is then listed or quoted for trading on the date in question, including, without limitation, the NASDAQ/OMX, NYSE/Euronext, BATS, or if such Common stock is not listed or quoted on any of the foregoing, then the OTCBB, OTCQB or such other over the counter market in which such Common Stock is principally traded.

“Transaction Documents” shall have the meaning set forth in the Subscription Agreement.

“Unit(s)” means the units consisting of Series B-1 Preferred Stock, Fixed Warrants and Contingent Warrants

“VWAP” means, means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. New York City time to 4:00 p.m. New York City time); (b) if the Common Stock is not then listed or quoted on a Trading Market and if prices for the Common Stock are then reported in the "OTC Markets Pink Sheets" published by OTC Markets (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (c) in all other cases, the fair market value of a share of Common Stock as determined in good faith by the Corporation’s Board.

"Warrant Shares" means the shares of Common Stock issuable upon exercise of the Fixed Warrants and the Contingent Warrants.

Section 2. Designation, Amount and Par Value. The series of preferred stock created hereby shall be designated as the Corporation's Series B-1 Convertible Preferred Stock (the "Series B-1 Preferred Stock") and the number of shares so designated shall be twenty-one thousand two hundred and forty (21,240) shares (which shall not be subject to increase without the consent of the registered holders of a Majority of the Series B-1 Preferred Stock (each a "Holder" and collectively, the "Holders"). Each share of Series B-1 Preferred Stock shall have a par value of $.01 per share and an initial Stated Value of $1,000 per share.

Section 3. Dividends and Other Distributions. The Series B-1 Preferred Stock shall not bear a dividend except in the event of the occurrence of a Dividend Event. Upon the occurrence of a Dividend Event, and continuing during the pendency of the Dividend Event, each Holder of Series B-1 Preferred Stock shall be entitled to receive cumulative dividends annually, prorated for the number of days in such year as the Dividend Event occurs and continues, (the "Dividend") on the then outstanding Stated Value of the Series B-1 Preferred Stock, such Dividend to be in the form of cash or shares of Series B-1 Preferred Stock, at the option of the Corporation, as follows:

a) Eight (8%) percent per annum, payable in arrears, if the Dividend Event occurs during the one year period commencing one year following the Final Closing of the Offering;

b) Ten (10%) percent per annum, payable in arrears, if the Dividend Event occurs during the one year period commencing two years following the Final Closing of the Offering; and

c) Twelve (12%) per annum, payable in arrears, if the Dividend Event occurs during three or more years following the Final Closing of the Offering.

Section 4. Voting Rights. The Holders shall have the following voting rights with respect to the Series B-1 Preferred Stock as set forth in this Section 4 and no other voting rights except as required by law:

(A) The Holders shall be entitled to vote along with holders of Common Stock on each matter submitted to a vote of stockholders (at a meeting of stockholders or by written consent in lieu of meeting). The number of votes that each Holder of shares of shall be entitled to cast as a result of such Holder's ownership of Series B-1 Preferred Stock shall be equal to the number of shares of Common Stock into which the Series B-1 Preferred Stock may be converted by the Holder in accordance with the provision of Section 6(a) hereof on the record date for determining those security holders of the Corporation entitled to notice of and to vote on the matter submitted to stockholders.

(B) The consent of the Holders of at least a Majority of the Series B-1 Preferred Stock, voting separately as a single class with one vote per share, in person or by proxy, either in writing without a meeting or at an annual or a special meeting of such Holders called for the purpose, shall be necessary to:

(i) amend, alter or repeal, by way of merger or otherwise, any of the provisions of the Certificate of Incorporation, including this Certificate, or Bylaws of the Corporation so as to:

A. Change any of the rights, preferences or privileges of Holders. Without limiting the generality of the preceding sentence, such change includes any action that would:

1. Reduce the Dividend Rate on the Series B-1 Preferred Stock, or make such dividends non-cumulative, or defer the date from which dividends will accrue, or cancel accrued and unpaid dividends, or change the relative seniority rights of the Holders of Series B-1 Preferred Stock as to the payment of dividends in relation to the holders of any other Capital Stock of the Corporation;

2. Reduce the amount payable to the Holders of the Series B-1 Preferred Stock upon the voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, or change the relative seniority of the liquidation preferences of the holders of the Series B-1 Preferred Stock to the rights upon Liquidation of the holders of any other Capital Stock of the Corporation;

3. Make the Series B-1 Preferred Stock redeemable at the option of the Corporation other than in accordance with the terms of this Certificate.

B. Authorize, create or issue any shares of Parity Securities or Senior Securities (or amend the provisions of any existing class of Capital Stock to make such class of Capital Stock a class of Parity Securities or Senior Securities).

(iii) increase or decrease (other than by redemption or conversion) the total number of authorized shares of Series B-1 Preferred Stock or amend any provisions of any Capital Stock so as to make such Capital Stock redeemable by the Corporation except as provided on the date hereof.

Section 5. Liquidation. In the event of any Liquidation, after payment or provision for payment by the Corporation of the debts and other liabilities of the Corporation and the liquidation preference for any Senior Securities that rank senior to the Series B-1 Preferred Stock with respect to distributions upon Liquidation, each Holder shall be entitled to receive an amount in cash for each share of the then outstanding Series B-1 Preferred Stock held by such Holder equal to the greater of (a) the Stated Value per share to and including the date full payment is tendered to the Holders with respect to such Liquidation, and (b) the amount the Holders would have received if the Holders had converted all outstanding shares of the Series B-1 Preferred Stock into Common Stock in accordance with the provisions of Section 6(a) hereof, in each case as of the Business Day immediately preceding the date of such Liquidation (the "Liquidation Preference") before any distribution shall be made to the holders of any Junior Securities (and any Senior Securities or Parity Securities that, with respect to distributions upon Liquidation, rank junior to the Series B-1 Preferred Stock) upon the Liquidation of the Corporation. In case the assets of the Corporation available for payment to the Holders are insufficient to pay the full outstanding shares of Parity Securities and Senior Securities that, with respect to distribution upon Liquidation, are pari passu with the Series B-1 Preferred Stock in the amounts to which the holders of such shares are entitled, then the entire assets of the Company available for payment to the Holders and to the holders of such Parity Securities and Senior Securities shall be distributed ratably among the Holders of the Series B-1 Preferred Stock and the holders of such Parity Securities and Senior Securities, based upon the aggregate amount due on such shares upon Liquidation. Written notice of any Liquidation of the Corporation, stating a payment date and the place where the distributable amounts shall be payable, shall be given by facsimile and overnight delivery not less than ten (10) calendar days prior to the payment date stated therein, to the Holders of record of the Series B-1 Preferred Stock, if any, at their respective addresses as the same shall appear on the books of the Corporation. Upon any Liquidation the Holders of the Series B-1 Preferred Stock shall have liquidation rights pari passu with holders of the Corporation's Series A-1 Preferred Stock, Series A-2 Preferred Stock and Series A-4 Preferred Stock.

Section 6. Conversion.

a) Conversions at Option of Holder. On or after the Share Authorization Date, each share of Series B-1 Preferred Stock shall be, convertible by the Holder thereof into a number of Conversion Shares of the Corporation equal to the Stated Value of the Series B-1 Preferred Stock to be converted divided by the VWAP for the Corporation's Common Stock over the ten (10) Trading Days immediately prior to the Original Issue Date for the Series B-1 Preferred Stock, as adjusted for stock splits, combinations, and reclassifications ("Preferred Conversion Rate"). Holders shall effect conversions by providing the Corporation at its principle office conversion notice in the form attached hereto as Annex A (a "Notice of Conversion") as fully and originally executed by the Holder, together with the delivery by the Holder to the Corporation of the stock certificate(s) representing the number of shares of Series B-1 Preferred Stock so converted, with such stock certificates being duly endorsed in full for transfer to the Corporation or with an applicable stock power duly executed by the Holder in the manner and form as deemed reasonable by the transfer agent of the Common Stock. Each Notice of Conversion shall specify the number of shares of Series B-1 Preferred Stock to be converted, the number of shares of Series B-1 Preferred Stock owned prior to the conversion at issue, the number of shares of Series B-1 Preferred Stock owned subsequent to the conversion at issue, the stock certificate number and the shares of Series B-1 Preferred Stock represented thereby which are accompanying the Notice of Conversion, and the date on which such conversion is to be effected, which date may not be prior to five (5) Trading Days after the date the Holder delivers such Notice of Conversion and the applicable stock certificates to the Corporation (the "Conversion Date"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be five (5) Trading Days immediately following the date that such Notice of Conversion and applicable stock certificates are delivered to the Corporation.

b) <u>Beneficial Ownership Limitation</u>. The Corporation shall not effect any conversion of the Series B-1 Preferred Stock, and the Holder shall not have the right to convert any portion of the Series B-1 Preferred Stock to the extent that after giving effect to such conversion, the Holder (together with the Holder's affiliates), as set forth on the applicable Notice of Conversion, would beneficially own in excess of 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon conversion of the Series B-1 Preferred Stock with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) conversion of the remaining, non-converted shares of Series B-1 Preferred Stock beneficially owned by the Holder or any of its affiliates, so long as such shares of Series B-1 Preferred Stock are not convertible within sixty (60) days from the date of such determination, and (B) exercise or conversion of the unexercised or non-converted portion of any other securities of the Corporation (including the Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates, so long as such other securities of the Corporation are not exercisable nor convertible within sixty (60) days from the date of such determination. For purposes of this Section 6(b), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act. For purposes of this Section 6(b), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in the most recent of the following: (A) the Corporation's most recent annual or quarterly periodic report filed with the Commission under the Exchange Act (B) a more recent public announcement by the Corporation or (C) any other written notice by the Corporation or the Corporation's transfer agent setting forth the number of shares of Common Stock outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Series B-1 Preferred Stock, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was publicly reported by the Corporation. The provisions of this Section 6(b) may be waived by the Holder upon, at the election of the Holder, not less than sixty one (61) days' prior notice to the Corporation, and the provisions of this Section 6(b) shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver).

c) Mechanics of Conversion

(A) Delivery of Certificate Upon Conversion. At all times after the Share Authorization Date, the Corporation shall deliver to the Holder, not later than five (5) Trading Days after each Conversion Date (the "Share Delivery Date"): (1) a certificate or certificates representing the number of Conversion Shares being acquired upon the conversion of shares of Series B-1 Preferred Stock, and (2) either (1) a bank check in the amount of accrued and unpaid dividends (if the Corporation has elected or is required to pay accrued dividends in cash) or (2) such number of additional shares of Common Stock equal to (W) the amount of accrued and unpaid dividends divided by (X) the VWAP per share for the Corporation's Common Stock over the ten Trading Days ending on the Trading Day before the Conversion Date. At the option of the Holder, with such Holder's express written consent, the Company shall deliver unregistered Common Stock after the Share Authorization Date but prior to the Effective Date of the Registration Statement.

(B) Reservation of Shares Issuable Upon Conversion.

(1) At all times after the Share Authorization Date, the Corporation covenants that it will reserve and keep available out of its authorized and unissued shares of Common Stock solely for the purpose of issuance upon conversion of the Series B-1 Preferred Stock, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of persons other than the Holders, not less than such number of shares of the Common Stock as shall (subject to any additional requirements of the Corporation as to reservation of such shares set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 7) upon the conversion of all outstanding shares of Series B-1 Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized, issued and fully paid, and nonassessable.

(2) The Series B-1 Preferred Stock shall not be converted at any time prior to the Share Authorization Date.

(C) Fractional Shares. Upon a conversion hereunder, the Corporation shall not be required to issue stock certificates representing fractions of shares of the Common Stock. The number of Conversion Shares to be issued upon conversion of the Series B-1 Preferred Stock shall be rounded up or down to the nearest whole Conversion Share.

(D) Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of the Series B-1 Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of such shares of Series B-1 Preferred Stock so converted and the Corporation shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(E) Holder of Record. Each conversion of Series B-1 Preferred Stock shall be deemed to have been effected immediately before the close of business on the Business Day on which the Conversion Notice is delivered, and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion as provided herein shall be deemed to have become the holder or holders of record thereof.

(F) Partial Conversion. If any conversion is for only part of the shares represented by the certificate surrendered, the Corporation shall send a new Series B-1 Preferred Stock certificate of like tenor via certified or registered mail RRR or reputable overnight courier to such address specified by the Holder, calling in the aggregate on the face or faces thereof for the number of shares of Series B-1 Preferred Stock which have not been converted.

d) Conversion by the Corporation. At any time on or after the Share Authorization Date, the Corporation shall have the right, without the consent of or any action by or on behalf of the Holder, to cause all but not a portion of the then outstanding Series B-1 Preferred Stock, to be converted into Common Stock at the applicable Preferred Conversion Rate (the "Company Conversion Right"). In the event the Corporation elects to exercise the Company Conversion Right, the Corporation shall provide each Holder of the then outstanding Series B-1 Preferred Stock with written notice of its intention to cause the conversion of the Series B-1 Preferred Stock into Common Stock, along with (i) the effective date of the Company Conversion Right, (ii) the applicable Preferred Conversion Rate and (iii) the number of Conversion Shares into which the Holder's Series B-1 Preferred Stock is to be converted (the "Company Conversion Notice"). Upon delivery to the Holder of a certificate evidencing the number of Conversion Shares set forth in the Company Conversion Notice, the Holder's Series B-1 Preferred Stock shall be automatically cancelled and shall thereafter cease to represent any entitlement or equity interest in the Corporation. The certificates evidencing the Series B-1 Preferred Stock shall contain a legend referencing the Company Conversion Right described in this Section.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Corporation, at any time while the Series B-1 Preferred Stock is outstanding: (A) shall pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation pursuant to this Series B-1 Preferred Stock), (B) subdivide outstanding shares of Common Stock into a larger number of shares, (C) combine (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issue by reclassification of shares of the Common Stock any shares of Capital Stock of the Corporation, then the Preferred Conversion Price shall be adjusted shall be adjusted by multiplying the then Preferred Conversion Price by a fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the event and the denominator of which shall be the number of shares of Common Stock outstanding immediately following the event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

b) Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) actually issued and outstanding.

c) Change of Control. In case the Corporation on or after the Original Issue Date is party to any (a) acquisition of the Corporation by means of merger or other form of corporate reorganization in which outstanding shares of the Corporation are exchanged for securities or other consideration issued, or caused to be issued, by the Acquiring Person, or its Parent, Subsidiary, herein defined, or affiliate, (b) a sale of all or substantially all of the assets of the Corporation (on a consolidated basis) in a single transaction or series of related transactions, (c) any other transaction or series of related transactions by the Corporation or relating to the Common Stock (including without limitation, any stock purchase or tender or exchange offer) in which the power to cast the majority of the eligible votes at a meeting of the Corporation's stockholders at which directors are elected is transferred to a single entity or group acting in concert, or (d) a capital reorganization or reclassification of the Common Stock or other securities (other than a reorganization or reclassification in which the Common Stock or other securities are not converted into or exchanged for cash or other property, and, immediately after consummation of such transaction, the stockholders of the Corporation immediately prior to such transaction own the Common Stock, other securities or other voting stock of the Corporation in substantially the same proportions relative to each other as such stockholders owned immediately prior to such transaction), then, and in the case of each such transaction (each of which is referred to herein as "Change in Control"), proper provision shall be made so that, at the option of the Acquiring Person and upon fifteen days' notice to the Corporation and the Holder prior to the consummation of the Change of Control, either (i) the Acquiring Person expressly agrees to assume all of the Corporation's obligations under the Series B-1 Preferred Stock or (ii) the Holder has fifteen (15) days in which to exercise its conversion rights under the Series B-1 Preferred Stock. If Holder does not exercise its rights during such fifteen (15) day period, all rights under the Series B-1 Preferred Stock shall terminate and the Series B-1 Preferred Stock shall be deemed cancelled. The Corporation, to the extent feasible, shall provide the Holder with thirty (30) days' notice of the consummation of any Change of Control. Subject to the foregoing, on or before the closing date under the agreement entered into with an Acquiring Person resulting in a Change in Control, the Corporation, if applicable, shall deliver to the Holder written notice that the Acquiring Person has assumed such obligations. "Acquiring Person" means, in connection with any Change in Control, (i) the continuing or surviving corporation of a consolidation or merger with the Corporation (if other than the Corporation), (ii) the transferee of all or substantially all of the properties or assets of the Corporation, (iii) the corporation consolidating with or merging into the Corporation in a consolidation or merger in connection with which the Common Stock is changed into or exchanged for stock or other securities of any other Person or cash or any other property, (iv) the entity or group (other than Holder or any of its affiliates) acting in concert acquiring or possessing the power to cast the majority of the eligible votes at a meeting of the Corporation 's stockholders at which directors are elected, or, (v) in the case of a capital reorganization or reclassification, the Corporation, or (vi) at the Holder's election, any Person that (A) controls the Acquiring Person directly or indirectly through one or more intermediaries, (B) is required to include the Acquiring Person in the consolidated financial statements contained in such Parent's Annual Report on Form 10-K (if such Person is required to file such a report) or would be required to so include the Acquiring Person in such Person's consolidated financial statements if they were prepared in accordance with U.S. GAAP and (C) is not itself included in the consolidated financial statements of any other Person (other than its consolidated subsidiaries).

Section 8. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, sent by a nationally recognized overnight courier service, addressed to the Corporation, at 420 Lexington Avenue, Suite 1718, New York, NY 101070, Attn: President or such other address or facsimile number as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, sent by a nationally recognized overnight courier service addressed to each Holder at the address of such Holder appearing on the books of the Corporation, or if no such address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (ii) upon actual receipt by the party to whom such notice is required to be given.

b) Lost or Mutilated Preferred Stock Certificate. If a Holder's Series B-1 Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Series B-1 Preferred Stock so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership thereof, and indemnity, if requested, all reasonably satisfactory to the Corporation.

c) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

d) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designations and shall not be deemed to limit or affect any of the provisions hereof.

RESOLVED, FURTHER, that the Chief Executive Officer, President, any Vice-President, and the Secretary of the Corporation be and they hereby are authorized and directed to prepare and file a Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of Delaware law.

IN WITNESS WHEREOF, the undersigned have executed this Certificate this 18th day of October, 2012.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By: /s/ Gordon Hutchins, Jr.
Gordon Hutchins Jr., President

By: /s/ Philip Turits
Philip Turits, Secretary

ANNEX A

NOTICE OF CONVERSION

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO CONVERT SHARES OF SERIES A PREFERRED STOCK)

The undersigned hereby elects to convert the number of shares of Series B-1 Convertible Preferred Stock indicated below, into shares of common stock, par value $0.01 per share (the "Common Stock"), of Fusion Telecommunications International, Inc., a Delaware corporation (the "Corporation"), according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Corporation in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any.

Conversion calculations:

Date to Effect Conversion: ____

Number of shares of Common Stock owned prior to Conversion: _____________________________

Number of shares of Series B-1 Preferred Stock to be Converted: ____________________________

Value of shares of Series B-1 Preferred Stock to be Converted: _______________________________

Number of shares of Common Stock to be Issued: ____

Certificate Number of Series B-1 Preferred Stock attached hereto: ____________________________

Number of Shares of Series B-1 Preferred Stock represented by attached certificate:
____

Number of shares of Series B-1 Preferred Stock subsequent to Conversion: _____________________

[HOLDER]

By:_____________________________________
Name:
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 September 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.

November 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 September 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.

November 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 September 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.

November 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.

EXHIBIT 32.2

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 September 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.

November 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.