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 June 30, 2013

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

For the transition period from _____ to _____

Commission File Number: 001-32421

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**58-2342021**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

(212) 201-2400
(Registrants telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: August 13, 2013.

Title Of Each Class	**Number of Shares Outstanding**
Common Stock, $0.01 par value	218,825,801

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Condensed Consolidated Balance Sheets

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 786,903	$ 543,214
Accounts receivable, net of allowance for doubtful accounts of approximately $426,000 and $514,000, respectively	4,251,655	2,924,302
Inventory	433,894	341,118
Prepaid expenses and other current assets	589,454	1,001,449
Total current assets	6,061,906	4,810,083
Property and equipment, net	2,448,760	2,406,944
Other assets:		
Security deposits	446,855	439,741
Restricted cash	1,163,550	1,026,326
Goodwill	2,406,269	2,406,269
Intangible assets, net	14,289,467	15,396,117
Other assets	504,040	582,947
Total other assets	18,810,181	19,851,400
TOTAL ASSETS	$ 27,320,847	$ 27,068,427
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable - non-related parties	$ 552,755	$ 208,333
Notes payable - related parties	567,857	639,286
Equipment financing obligations	195,308	136,392
Escrow payable	706,700	-
Accounts payable and accrued expenses	8,440,521	10,579,496
Related party payable	1,000,213	1,159,573
Current liabilities from discontinued operations	55,000	55,000
Total current liabilities	11,518,354	12,778,080
Long-term liabilities:		
Notes payable - non-related parties, net of discount	14,319,247	14,475,747
Notes payable - related parties	4,061,422	4,492,136
Equipment financing obligations	104,487	102,071
Derivative liability	960,733	1,066,000
Other long-term liabilities	198,487	266,132
Total liabilities	31,162,730	33,180,166
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 11,907 shares issued and outstanding	119	119
Common stock, $0.01 par value, 550,000,000 shares authorized, 204,592,663 and 178,250,533 shares issued and outstanding	2,045,926	1,782,504
Capital in excess of par value	148,676,946	146,760,005
Accumulated deficit	(154,564,874)	(154,654,367)
Total stockholders' deficit	(3,841,883)	(6,111,739)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 27,320,847	$ 27,068,427

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$ 14,230,178	$ 10,219,436	$ 30,398,599	$ 21,754,140
Cost of revenues, exclusive of depreciation and amortization, shown separately below	9,605,534	8,963,789	21,357,130	19,008,549
Gross profit	4,624,644	1,255,647	9,041,469	2,745,591
Depreciation and amortization	872,584	93,954	1,722,499	192,177
Selling general and administrative expenses (including stock-based compensation of approximately $28,000 and $54,000 for the three months ended June 30, 2013 and 2012, and approximately $56,000 and $61,000 for the six months ended June 30, 2013 and 2012	4,433,848	2,258,385	8,701,446	4,309,526
Total operating expenses	5,306,432	2,352,339	10,423,945	4,501,703
Operating loss	(681,788)	(1,096,692)	(1,382,476)	(1,756,112)
Other (expenses) income:				
Interest expense	(669,731)	(49,679)	(1,329,250)	(106,765)
Loss on extinguishment of debt	(92,376)	-	(150,579)	-
Other income (expenses), net	220,786	(88,249)	42,916	(157,694)
Total other income (expenses)	(541,321)	(137,928)	(1,436,913)	(264,459)
Gain on extinguishment of accounts payable	2,908,882	-	2,908,882	-
Net income (loss)	1,685,773	(1,234,620)	89,493	(2,020,571)
Preferred stock dividends in arrears	(100,349)	(100,349)	(199,595)	(200,698)
Net income (loss) applicable to common stockholders:	$ 1,585,424	$ (1,334,969)	$ (110,102)	$ (2,221,269)
Basic earnings (loss) per common share:	$ 0.01	$ (0.01)	$ (0.00)	$ (0.01)
Diluted earnings (loss) per common share:	$ 0.01	$ (0.01)	$ (0.00)	$ (0.01)
Weighted average common shares outstanding:				
Basic	195,867,029	165,875,657	187,316,263	162,932,029
Diluted	279,677,196	165,875,657	187,316,263	162,932,029

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income (loss)	$ 89,493	$ (2,020,571)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,722,499	192,177
Loss on sale of accounts receivable	128,769	168,814
Bad debt expense	1,251	63,273
Stock-based compensation	55,931	61,482
Stock and warrants issued for services rendered	83,564	
Amortization of debt discount and deferred financing fees	209,011	-
Change in fair value of derivative liability	(105,267)	-
Loss on extinguishment of debt	150,579	-
Gain on extinguishment of accounts payable	(2,908,882)	-
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(992,929)	528,647
Inventory	(92,776)	-
Prepaid expenses and other current assets	(75,670)	(1,247)
Other assets	25,894	(1,408)
Replenishment of security deposits	(144,141)	-
Accounts payable and accrued expenses	1,271,099	(257,245)
Other long-term liabilities	(67,645)	(52,511)
Net cash used in operating activities	(649,220)	(1,318,589)
Cash flows from investing activities:		
Purchase of property and equipment	(535,831)	(77,303)
Increase in restricted cash	(197)	(3,145)
Net cash used in investing activities	(536,028)	(80,448)
Cash flows from financing activities:		
Proceeds from the sale of common stock and warrants, net	1,559,509	1,142,720
Proceeds from notes payable - related parties	100,000	161,000
Proceeds from notes payable - non-related parties	212,500	300,000
Payments on equipment financing obligations	(5,352)	-
Proceeds from the sale of equity securities not yet issued	-	775,000
Repayments of notes payable - related parties	(257,143)	(60,000)
Repayments of notes payable - non-related parties	(180,577)	(123,073)
Net cash provided by financing activities	1,428,937	2,195,647
Net increase in cash and cash equivalents from continuing operations	243,689	796,610
Cash flows from discontinued operations:		
Net cash used in operating activities of discontinued operations	-	(1,490)
Net change in cash and cash equivalents:	243,689	795,120
Cash and cash equivalents, beginning of period	543,214	3,047
Cash and cash equivalents, end of period	$ 786,903	$ 798,167

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 unaudited condensed consolidated interim financial statements and notes thereto 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, 2012 for Fusion Telecommunications International, Inc. and its Subsidiaries (collectively, the "Company"). 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"). All material intercompany balances and transactions have been eliminated in consolidation. 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 three and six months ended June 30, 2013 and 2012, 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.

Income taxes

The Company complies with accounting and reporting requirements with respect to accounting for income taxes, which require an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

In accordance with U.S. GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Derecognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce net assets. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of June 30, 2013 and December 31, 2012. The Company is subject to income tax examinations by major taxing authorities for all tax years since 2009 and may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. No interest expense or penalties have been recognized as of June 30, 2013 and December 31, 2012. During the three month periods ended June 30, 2013 and 2012, the Company recognized no adjustments for uncertain tax positions.

Earnings per share

The Company complies with the accounting and disclosure requirements regarding earnings (loss) per share. Basic earnings per share excludes dilution and is computed by dividing earnings attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings 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. For the three months ended June 30, 2013, the computation of weighted-average common shares outstanding for diluted earnings per share is as follows:

Weighted-average shares outstanding - basic	195,867,029
Dilutive effect of employee stock options	9,565
Dilutive effect of common stock purchase warrants	13,552,099
Dilutive effect of convertible preferred stock	70,248,503
Weighted-average shares outstanding - diluted	279,677,196

Back to Table of Contents

For the six months ending June 30, 2013 and 2012, the following securities were excluded in the calculation of diluted loss per share because their inclusion would be antidilutive:

	2013	2012
Warrants	99,027,060	51,372,711
Stock options	8,722,848	6,548,261
Convertible preferred stock	70,248,503	7,206,168
	177,998,411	65,127,140

The net earnings (loss) per common share calculation includes a provision for preferred stock dividends in the approximate amount of $100,000 for the three months ended June 30, 2013 and 2012, and approximately $200,000 and $201,000 for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, the Board of Directors had not declared any dividends on the Company's preferred stock, and the Company had accumulated approximately $3,327,000 of preferred stock dividends.

Sale of accounts receivable

The Company has an agreement to sell certain of its accounts receivable under an arrangement with a third party. These transactions qualify as sales of financial assets under the criteria outlined in Accounting Standards Codification Topic ("ASC") 860, *Transfers and Servicing*, in that the rights, title and interest to the receivables are transferred. As a result, the Company accounts for the sales of its accounts receivable by derecognizing them from its consolidated balance sheet as of the date of sale and recording a loss on sale at the time the receivables are sold for the difference between the book value of the receivables sold and their respective purchase price.

The Company recognized a loss on the sale of accounts receivable in the three and six months ended June 30, 2013 of approximately $45,000 and $129,000, respectively. For the three and six months ended June 30, 2012 the Company recognized a loss on the sale of accounts receivable of approximately $94,000 and $169,000, respectively, and approximately $0.7 million and $2.4 million of the Company's outstanding accounts receivable have been derecognized from the Company's consolidated balance sheet as of June 30, 2013 and December 31, 2012, respectively.   The Company's obligations to the purchaser of the receivables under the agreement are secured by a first priority lien on the accounts receivable of the Company's Carrier Services business segment, and by a subordinated security interest on the other assets of the Company's Carrier Services business segment. 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.

Goodwill

At June 30, 2013 and December 31, 2012, the Company had goodwill in the amount of $2.4 million, consisting of the excess of the acquisition cost over the fair value of the identifiable net assets acquired in connection with the Company's acquisition of Network Billing Systems, LLC ("NBS") on October 29, 2012. Impairment testing for goodwill is performed annually in the Company's fourth fiscal quarter or when indications of an impairment exist. The Company has the option to perform a qualitative assessment to determine if the fair value of the entity is less than its carrying value. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. The Company has determined that its reporting units are its operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value, which is the fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets. If the implied fair value of goodwill is less than its carrying amount, an impairment is recognized. The Company did not record any impairment charges during the six months ended June 30, 2013.

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 six months ended June 30, 2013 and 2012 includes compensation expense for stock-based payment awards granted prior to June 30, 2013 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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

The impact of stock-based compensation expense on the Company's results of continuing operations was approximately $28,000 and $54,000 for the three months ended June 30, 2013 and 2012, respectively, and approximately $56,000 and $61,000 for the six months ended June 30, 2013 and 2012, respectively. These amounts are included in selling, general, and administrative expenses in the condensed consolidated interim statements of operations.

The following table summarizes the stock option activity for the six months ended June 30, 2013:

(unaudited)

Activity	Number of Options		Weighted Average Exercise Price
Outstanding at December 31, 2012	8,864,261	$	0.58
Granted	10,000	$	0.10
Forfeitures in 2013	(87,375)	$	0.11
Expirations in 2013	(64,038)	$	1.40
Outstanding at June 30, 2013	8,722,848	$	0.58
Exercisable at June 30, 2013	5,290,850	$	0.89

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

	(unaudited) Six Months Ended June 30, 2013	(unaudited) Six Months Ended June 30, 2012
Dividend yield	0.00%	0.00%
Stock volatility	137.2%	111.2-148.7%
Average Risk-free interest rate	0.52%	0.28%
Average option term (years)	4	4

As of June 30, 2013, there was approximately $189,000 of total unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under the Company's Stock Incentive Plans, which is expected to be recognized over a weighted-average period of 2.12 years.

Advertising and marketing

Advertising and marketing expense includes cost for promotional materials and trade show expenses for the marketing of the Company's business products and services. Advertising and marketing expenses were approximately $6,000 and $2,000 for the three months ended June 30, 2013 and 2012, respectively, and approximately $15,000 and $8,000 for the six months ended June 30, 2013 and 2012, respectively.

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

Restricted cash at June 30, 2013 and December 31, 2012 includes $1,000,000 of cash held in reserve as required by the terms of the Company's senior lending agreement (see note 7), and certificates of deposit collateralizing a letter of credit in the aggregate amount of $163,550 and $26,326 at June 30, 2013 and December 31, 2012, respectively. The letter of credit is required as security for one of the Company's non-cancelable operating leases for office facilities. The $1,000,000 restricted cash balance at June 30, 2013 includes $706,700 of cash held in escrow from private placement efforts for which shares of the Company's equity securities have not been issued. The consolidated balance sheet at June 30, 2013 includes a corresponding escrow payable representing the Company's obligation to issue such securities.

Back to Table of Contents

2. Going Concern

At June 30, 2013, the Company had a working capital deficit of $5.5 million and an accumulated deficit of $154.6 million. The Company has continued to sustain losses from operations and has not generated positive cash flow from operations since inception. During the six months ended June 30, 2013, the Company raised approximately $1.6 million, net of expenses, from the sale of its equity securities. In addition, as more fully described in note 7, at various times subsequent to May 15, 2013 the Company was not in compliance with one of the covenants contained in its senior lending agreement, for which the Company entered into a waiver and amendment agreement on August 14, 2013. This agreement reduced the minimum cash balance requirement under the terms of the senior lending agreement from $1 million to $0.5 million for the period between May 15, 2013 and August 31, 2013, after which time the minimum cash balance requirement reverts to $1.0 million. The Company cannot provide any assurances if and when it will be able to attain profitability. These conditions, among others, raise substantial doubt about the Company's ability to continue operations as a going concern. No adjustment has been made in the condensed consolidated interim financial statements to the amounts and classification of assets and liabilities which could result should the Company be unable to continue as a going concern.

3. Acquisition

As previously discussed in note 1, the Company acquired NBS on October 29, 2012. Had the transaction taken place on January 1, 2012, the Company's consolidated revenues and net loss for the three months ended June 30, 2012 would have approximately $16.9 million and $0.5 million, respectively, and the Company's consolidated revenues and net loss for the six months ended June 30, 2012 would have been approximately $35.4 million and $1.4 million, respectively.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(unaudited)	
Prepaid insurance	$ 155,632	$ 44,390
Due from purchaser of accounts receivable	183,983	648,428
Other prepaid expenses	249,839	308,631
Total	$ 589,454	$ 1,001,449

5. Intangible Assets

Identifiable intangible assets as of June 30, 2013 and December 31, 2012 are comprised of:

	June 30, 2013 (unaudited)			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Intangibles associated with the acquisition of NBS:						
Trademarks and tradename	$ 563,000	$ (37,533)	$ 525,467	$ 563,000	$ (9,383)	$ 553,617
Proprietary technology	1,903,000	(253,733)	1,649,267	1,903,000	(63,433)	1,839,567
Non-compete agreement	3,257,000	(723,778)	2,533,222	3,257,000	(180,944)	3,076,056
Customer contracts	9,824,000	(431,422)	9,392,578	9,824,000	(107,856)	9,716,144
Favorable lease intangible	218,000	(29,067)	188,933	218,000	(7,267)	210,733
Total acquired intangibles	15,765,000	(1,475,533)	14,289,467	15,765,000	(368,883)	15,396,117
Other intangibles:						
Trademarks	315,745	(315,745)	-	315,745	(315,745)	-
Intellectual property	86,397	(86,397)	-	86,397	(86,397)	-
Total	$ 16,167,142	$ (1,877,675)	$ 14,289,467	$ 16,167,142	$ (771,025)	$ 15,396,117

Amortization expense was $553,324 and $29,052 for the three months ended June 30, 2013 and 2012, respectively, and $1,106,649 and $58,104 for the six months ended June 30, 2013 and 2012, respectively. Estimated future aggregate amortization expense is as follows for the periods indicated:

Year ending December 31:	2013	$ 1,106,650
	2014	2,212,482
	2015	2,031,538
	2016	1,126,816
	2017	1,056,116

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Trade accounts payable	$ 6,600,072	$ 8,800,525
Accrued expenses	700,593	993,618
Accrued payroll and vacation	74,609	113,860
Interest payable	250,187	93,458
Deferred revenue	13,070	21,947
Other	801,990	556,088
Total accounts payable and accrued expenses	$ 8,440,521	$ 10,579,496

7. Notes Payable – Non-Related Parties

At June 30, 2013 and December 31, 2012, components of notes payable – non-related parties are comprised of the following:

	June 30, 2013	December 31, 2012
Senior Notes	$ 16,500,000	$ 16,500,000
Discount on Senior Notes	(1,659,921)	(1,815,920)
Other notes payable	31,923	-
Total notes payable - non-related parties	14,872,002	14,684,080
Less:		
Current portion of Senior Notes	(520,832)	(208,333)
Current portion of other notes payable	(31,923)	-
Non-current portion notes payable - non-related parties	$ 14,319,247	$ 14,475,747

Senior Notes

On October 29, 2012, the Company and its wholly-owned subsidiary, Fusion NBS Acquisition Corp. ("FNAC"), executed 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 Company 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", and together with the Series A Notes, the "Senior Notes") in the aggregate principal amount of $10.0 million bearing interest at the rate of 11.5% annually. The proceeds from the sale of the Senior Notes were used to finance the acquisition of NBS.

All of the Senior Notes provide for the payment of interest on a monthly basis. 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.

Back to Table of Contents

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, including NBS, and by second priority security interests in the accounts receivable pertaining to the Company's Carrier Services business segment and all of the other assets of the Company. In addition, Fusion and NBS have guaranteed FNAC's obligations under the SPA, including FNAC's obligation to repay the Senior Notes.

The SPA contains 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, 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 Senior Notes. At June 30, 2013 the Company was in compliance with all of the financial covenants under the Senior Notes. At various times since May 15, 2013, the Company was not in compliance with the $1 million minimum cash balance requirement, which constitutes an event of default under the terms of the SPA. On August 14, 2013, the Company and the Lenders entered into a Waiver and Amendment Agreement to the SPA (the "Waiver Agreement") whereby the Lenders agreed to waive the event of default through August 14, 2013, and amended the SPA to reduce the minimum cash balance requirement from $1 million to $0.5 million between May 15, 2013 and August 31, 2013, after which time the minimum cash balance requirement reverts to $1 million. After giving effect to the terms of the Waiver Agreement, the Company has at all times been in compliance with the restrictive covenant pertaining to the minimum cash balance requirement.

In connection with the sale of the Senior Notes to the Lenders, the Company issued a nominal warrant to the Lenders to purchase 13,325,000 shares of the Company's common stock (the "Lenders' Warrant"). The Lenders' Warrant is exercisable from the date of issuance until October 29, 2022, at an exercise price of $.01 per share. The Company is required 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 Senior Notes in full or October 29, 2017, in the event that the Company's common stock does not meet certain liquidity thresholds with respect to trading volume and market price, then the Lenders have the right to require the Company to repurchase the shares issued or issuable upon exercise of the Lenders' Warrant at a repurchase price based upon the formulas set forth therein.

The Company recorded a discount on the Senior Notes based on the fair value of the Lenders' Warrant as of the date of issuance, which was $1,865,500. The discount is being accreted over the life of the Senior Notes, and the discount was $1,659,921 and $1,815,920 as of June 30, 2013 and December 31, 2012, respectively. In addition, the Lenders' Warrant does not meet the criteria for equity classification under ASC Topic 480, *Distinguishing Liabilities From Equity*, and is not considered to be indexed to the Company's own stock under the guidance provided in ASC Topic 815, *Derivatives and Hedging*. As a result, the Company recognized a derivative liability in the amount of $1,865,500 upon the issuance of the Lenders' Warrant. At June 30, 2013 and December 31, 2012, the fair value of the derivative liability was $960,733 and $1,066,000, respectively, and the Company recognized a gain on the change in fair value of $105,267 for the six months ended June 30, 2013.

Other notes payable

During the first six months of 2013, the Company received advances from the purchaser of its accounts receivable (see note 1) totaling $212,500. This amount is in addition to the proceeds received by the Company for the sale of accounts receivable. The Company repaid $181,577 of this advance during the period, along with advance fees of approximately $9,000. These fees are reflected in Other expenses, net in the Company's consolidated statement of operations for the six months ended June 30, 2013.

8. Notes Payable-Related Parties

At June 30, 2013 and December 31, 2012, components of notes payable – related parties are comprised of the following:

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

	June 30, 2013	December 31, 2012
NBS Sellers Notes	$ 342,857	$ 600,000
Notes payable to Marvin Rosen	4,161,422	4,406,422
Other notes payable - related parties	125,000	125,000
Total notes payable - related parties	4,629,279	5,131,422
Less:		
Current portion of NBS Sellers Notes	(342,857)	(514,286)
Current portion of notes payable to Marvin Rosen	(100,000)	-
Current portion of other notes payable	(125,000)	(125,000)
Non-current portion notes payable - related parties	$ 4,061,422	$ 4,492,136

Sellers Notes

As part of the purchase price of NBS, FNAC issued promissory notes (the “Sellers Notes”) to Jonathan Kaufman and entities affiliated with Mr. Kaufman, (the “Sellers of NBS”) in the principal amount of $600,000. The Sellers Notes bear interest at 3% per annum, are payable in fourteen equal monthly installments commencing January 31, 2013 and are unsecured. The Sellers Notes are subject to the terms of a subordination agreement with the Lenders. Repayment of the Sellers Notes is guaranteed by the Company and NBS. Upon the closing of the acquisition of NBS, Mr. Kaufman became President of the Company’s Business Services division and an executive officer of the Company.

Notes Payable to Marvin Rosen

In conjunction with the Company’s sale of the Senior Notes to the Lenders in October of 2012, Marvin Rosen, the Company’s Chairman of the Board of Directors, entered into an Intercreditor and Subordination agreement with the Company and the Lenders (the “Subordination Agreement”), whereby Mr. Rosen agreed, among other things, that other than payments permitted by the Lenders, the amounts owed to him by the Company would be subordinate to the Senior 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 of all his then 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 a rate of 7% per annum, and matures 60 days after the Senior Notes are paid in full. Accrued interest on the outstanding promissory notes as of October 24, 2012 amounted to approximately $484,000, and this amount, together with 7% annual interest, is reflected in Notes payable – related parties on the Company’s consolidated balance sheet as of June 30, 2013 and December 31, 2012.

On March 1, 2013, the Company received a short-term unsecured advance from Mr. Rosen in the amount of $100,000, which remains outstanding as of June 30, 2013. The Lenders have approved the repayment of this advance from the proceeds from certain future sales of the Company’s equity securities. During the first six months of 2013, Mr. Rosen converted $345,000 of the New Rosen Note into 2,511,417 shares of common stock and warrants to purchase 1,255,708 shares of the Company’s common stock. The warrants are exercisable at 125% of the volume-weighted average price of the Company’s common stock for the 10 trading days prior to the date of conversion. In connection with these conversions, the Company recognized a loss on the extinguishment of debt for the three and six months ended June 30, 2013 in the amount of $92,376 and $150,579, respectively.

9. Equity Transactions

On March 28, 2013, the Company entered into subscription agreements with 13 accredited investors, under which the Company issued an aggregate of 11,024,351 shares of common stock and five-year warrants to purchase 5,512,176 shares of the Company’s common stock for aggregate consideration of $0.9 million. On May 31, 2013, the Company entered into subscription agreements with 17 accredited investors, under which the Company issued an aggregate of 10,017,134 shares of common stock and five-year warrants to purchase 5,008,567 shares of the Company’s common stock for aggregate consideration of $0.9 million. Also on May 31, 2013, an executive officer of the Company converted $2,500 due to him into 28,539 shares of common stock and warrants to purchase 14,270 shares of the Company’s common stock. The warrants are exercisable at 125% of the volume weighted-average price of the Company’s common stock for the ten trading days prior to the date of conversion.

10. Recently Adopted and Issued Accounting Pronouncements

During the six months ended June 30, 2013 and 2012 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.

11. Commitments and Contingencies

Legal matters

On March 12, 2013, a landlord over premises leased by the Company commenced a lawsuit in the New York City Civil Court, County of New York (Index No. 58738/13), in which the landlord is seeking to recover specified rent and related charges of approximately $97,000 due under a lease agreement between the landlord and the Company, and, as a result thereof, to evict the Company from the premises. The Company has since made all of the payments demanded by the landlord in the lawsuit, and the lawsuit has been dismissed.

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 liquidity, results of operations or financial condition.

Other matters

The Company's operations were impacted by Hurricane Sandy in October of 2012, and the Company filed a business interruption insurance claim with its insurance carrier for the Company's estimate of losses it incurred as a result of the storm. The Company's consolidated statement of operations for the six months ended June 30, 2013 reflect insurance proceeds received in the approximate amount of $163,000. Approximately $109,000 of this amount was for reimbursement to the Company for lost gross profit as a result of the storm, and this amount is reflected as revenues in the Company's Carrier Services business segment in the three and six months ended June 30, 2013. The remainder was recorded as a reduction to Selling, general and administrative expenses.

12. 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 – Carrier Services and Business 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 Voice over Internet Protocol ("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.

Business Services

The Company provides a full portfolio of Unified Communications and cloud services, including VoIP solutions, private network services, broadband Internet access and a variety of cloud services and other advanced communications services to small and medium-sized businesses, as well as enterprise customers. These services 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. The Business Services segment includes the results of operations of NBS effective as of October 29, 2012.

Operating segment information for the three and six months ended June 30, 2013 and 2012 is summarized as follows:

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Three Months Ended June 30, 2013

	Carrier Services	Business Services	Corporate and Unallocated	Consolidated
Revenues	$ 6,738,527	$ 7,491,651	$ -	$ 14,230,178
Cost of revenues (exclusive of depreciation and amortization)	5,938,937	3,666,597	-	9,605,534
Gross profit	799,590	3,825,054	-	4,624,644
Depreciation and amortization	69,578	803,006	-	872,584
Selling, general and administrative expenses	1,822,070	2,611,778	-	4,433,848
Interest expense	86,386	583,345		669,731
Other (income) expenses	(100,302)	(28,108)	-	(128,410)
Gain on extinguishment of accounts payable	2,908,882	-	-	2,908,882
Net income (loss)	$ 1,830,740	$ (144,967)	$ -	$ 1,685,773
Total assets	$ 3,332,067	$ 23,091,098	$ 897,682	$ 27,320,847

Three Months Ended June 30, 2012

	Carrier Services	Business Services	Corporate and Unallocated	Consolidated
Revenues	$ 9,621,378	$ 598,058	$ -	$ 10,219,436
Cost of revenues (exclusive of depreciation and amortization)	8,576,046	387,743	-	8,963,789
Gross profit	1,045,332	210,315	-	1,255,647
Depreciation and amortization	82,275	11,679	-	93,954
Selling, general and administrative expenses	1,279,310	979,075	-	2,258,385
Interest expense	23,267	23,267		46,534
Other expenses (income)	93,661	(2,267)	-	91,394
Net loss	$ (433,181)	$ (801,439)	$ -	$ (1,234,620)
Total assets	$ 1,868,527	$ 1,381,748	$ 1,239,299	$ 4,489,574

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Six Months Ended June 30, 2013

	Carrier Services	Business Services	Corporate and Unallocated	Consolidated
Revenues	$ 15,431,816	$ 14,966,783	$ -	$ 30,398,599
Cost of revenues (exclusive of depreciation and amortization)	13,920,475	7,436,655	-	21,357,130
Gross profit	1,511,341	7,530,128	-	9,041,469
Depreciation and amortization	139,076	1,583,423	-	1,722,499
Selling, general and administrative expenses	3,663,636	5,037,810	-	8,701,446
Interest expense	180,428	1,148,822		1,329,250
Other (income) expenses	(379,205)	486,868	-	107,663
Gain on extinguishment of accounts payable	2,908,882			2,908,882
Net income (loss)	$ 816,288	$ (726,795)	$ -	$ 89,493
Capital expenditures	$ 49,768	$ 468,566	$ 17,497	$ 535,831

Six Months Ended June 30, 2012

	Carrier Services	Business Services	Corporate and Unallocated	Consolidated
Revenues	$ 20,581,093	$ 1,173,047	$ -	$ 21,754,140
Cost of revenues (exclusive of depreciation and amortization)	18,262,516	746,033	-	19,008,549
Gross profit	2,318,577	427,014	-	2,745,591
Depreciation and amortization	170,059	22,118	-	192,177
Selling, general and administrative expenses	2,481,579	1,827,947	-	4,309,526
Interest expense	53,382	53,383		106,765
Other expenses (income)	167,139	(9,445)	-	157,694
Net loss	$ (553,582)	$ (1,466,989)	$ -	$ (2,020,571)
Capital expenditures	$ 70,958	$ 4,272	$ 2,073	$ 77,303

13. Other Income and Expenses

Other (expenses) income for the three and six months ended June 30, 2013 and 2012 consists of the following:

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	2013	2012
Loss on sale of accounts receivable	$ (45,285)	$ (93,661)	$ (128,769)	$ (168,814)
Change in fair value of derivative liability	238,517	-	105,267	-
Other	27,554	5,412	66,418	11,120
Total other income (expenses)	$ 220,786	$ (88,249)	$ 42,916	$ (157,694)

Back to Table of Contents

14. Gain on Extinguishment of Accounts Payable

In June of 2013, pursuant to the advice of counsel and based on applicable laws, the Company determined that it no longer had any liability pertaining to a trade payable in the amount $2,908,882. As a result, the Company derecognized the payable from its consolidated balance sheet at June 30, 2013 and recorded a corresponding gain on the extinguishment of debt.

15. Supplemental Disclosure of Cash Flow Information

	2013	2012
Cash paid for interest	$ 931,380	$ 17,011
Supplemental schedule of non-cash financing activities:		
Conversion of notes and interest payable - related parties to common stock	$ 345,000	$ 125,000
Conversion of accounts payable - related parties to common stock	$ 2,500	$ 35,000
Assets acquired under capital leases	$ 121,834	$ -

16. Related Party Transactions

Upon the closing of the acquisition of NBS on October 29, 2012, the purchase price was adjusted for an additional amount payable to the Sellers of NBS of approximately $1.1 million following the application of certain working capital adjustments as set forth in the purchase agreements. Approximately $1,000,000 and $1,159,000 remained outstanding to the Sellers of NBS as of June 30, 2013 and December 31, 2012, respectively. These amounts, which include accrued and unpaid interest of $32,130 and $0 at June 30, 2013 and December 31, 2012, respectively, are reflected in Related party payable in the accompanying consolidated balance sheets.

In addition to the debt and equity transactions discussed in notes 8 and 9, 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 on a month to month basis. Under the revised terms of the agreement, this affiliate utilizes a portion of the Company's leased office space in New York City for a fee of $3,000 per month. As of June 30, 2013, the Company had received $9,500 of advance payments in connection with this agreement, which is reflected in accounts payable and accrued expenses in the Company's condensed consolidated balance sheet.

17. Fair Value Disclosures

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities
Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities
Level 3—No observable pricing inputs in the market

The following table represents the fair value of the liability measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
As of June 30, 2013				
Non-current liabilities:				
Derivative liability (see note 7)	$ -	$ 960,733	$ -	$ 960,733
As of December 31, 2012				
Non-current liabilities:				
Derivative liability	$ -	$ 1,066,000	$ -	$ 1,066,000

18. Subsequent Events

On July 1, 2013, Marvin Rosen converted $200,000 of the New Rosen Note into 2,659,575 shares of common stock and warrants to purchase 1,329,788 shares of the Company's common stock. Also on July 1, 2013, another member of the Company's Board of Directors converted approximately $6,000 that was owed to him into 76,237 shares of common stock and warrants to purchase 38,119 shares of the Company's common stock. The warrants are exercisable at 125% of the volume-weighted average price of the Company's common stock for the 10 trading days prior to the date of conversion.

On July 10, 2013, the Company entered into subscription agreements with 12 accredited investors, under which the Company issued an aggregate of 10,362,174 shares of common stock and five-year warrants to purchase 5,181,087 shares of the Company's common stock for aggregate consideration of $0.7 million. The warrants are exercisable at 125% of the volume-weighted average price of the Company's common stock for the 10 trading days prior to the date of closing.

On August 14, 2013, as more fully described in note 7, the Company and the Lenders entered into the Waiver Agreement to waive an event of default under the SPA and amend a related restrictive covenant contained in the SPA.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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 2012 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 Business 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 Business Services business segment focuses on small, medium, and large enterprises 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 telecommunications 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 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 Business Services business segment and marketing to small and mid-sized businesses, as well as larger enterprises, using both our direct and partner distribution channels. We anticipate that this will assist us in increasing the percentage of the Company's total revenues contributed by the Business Services business segment, which we believe will complement the Company's Carrier Services business segment by providing higher margins and a more stable customer base.

On October 29, 2012, through our wholly owned subsidiary, Fusion NBS Acquisition Corp. ("FNAC"), we completed the acquisition of Network Billing Systems, LLC and certain assets and liabilities of its affiliate, 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.

The aggregate purchase price for the outstanding membership interests of NBS and the assets of ISG, net of 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 cash portion of the Purchase Price was largely financed through the issuance of $16.5 million of senior notes by FNAC (see **"Liquidity and Capital Resources"**).

Effective as of the date of the acquisition, NBS became our wholly-owned subsidiary, and we have substantially completed the integration of our pre-acquisition Business Services business segment with NBS' existing business. In connection with our acquisition of NBS, we entered into an Employment and Restrictive Covenant Agreement with Jonathan Kaufman, the founder and principal operating officer of NBS, and Mr. Kaufman became the President of our combined Business 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 both business segments and all of our 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 Business Services or Carrier Services business segment for segment reporting purposes, while a relatively small number of personnel are allocated to both segments as appropriate.

Back to Table of Contents

Our Outlook

Our ability to grow our business, fully implement our business plan and achieve profitability is dependent upon our ability to raise significant amounts of additional capital. 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 also require additional capital to support our Business Services segment, mainly for capital expenditures and other expenses associated with the development of new products and services. We believe that if we are able to obtain the necessary capital we will be able to compete effectively in both of our business segments.

Results of Operations

As a result of our acquisition of NBS on October 29, 2012, our results of operations for the three and six months ended June 30, 2013, particularly with respect to our Business Services business segment, are not comparable to the results of operations for the same periods in 2012. The following table summarizes our results of operations for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Revenues	$ 14,230,178	100.0%	$10,219,436	100.0%	30,398,599	100.0%	21,754,140	100.0%
Cost of revenues, exclusive of depreciation and amortization	9,605,534	67.5%	8,963,789	87.7%	21,357,130	70.3%	19,008,549	87.4%
Gross profit	4,624,644	32.5%	1,255,647	12.3%	9,041,469	29.7%	2,745,591	12.6%
Operating expenses:								
Depreciation and amortization	872,584	6.1%	93,954	0.9%	1,722,499	5.7%	192,177	0.9%
Selling general and administrative	4,433,848	31.2%	2,258,385	22.1%	8,701,446	28.6%	4,309,526	19.8%
Total operating expenses	5,306,432	37.3%	2,352,339	23.0%	10,423,945	34.3%	4,501,703	20.7%
Operating loss	(681,788)	-4.8%	(1,096,692)	-10.7%	(1,382,476)	-4.5%	(1,756,112)	-8.1%
Interest expense, net	(669,731)	-4.7%	(49,679)	-0.5%	(1,329,250)	-4.4%	(106,765)	-0.5%
Loss on extinguishment of debt	(92,376)	-0.6%	-	0.0%	(150,579)	-0.5%	-	0.0%
Other (expenses) income	220,786	1.6%	(88,249)	-0.9%	42,916	0.1%	(157,694)	-0.7%
Total other (expenses) income	(541,321)	-3.8%	(137,928)	-1.3%	(1,436,913)	-4.7%	(264,459)	-1.2%
Gain on extinguishment of accounts payable	2,908,882		-		2,908,882		-	
Net income (loss)	$ 1,685,773	11.8%	$ (1,234,620)	-12.1%	$ 89,493	0.3%	$ (2,020,571)	-9.3%

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012

Revenues

Consolidated revenues were $14.2 million during the three months ended June 30, 2013, compared to $10.2 million during the three months ended June 30, 2012, an increase of $4.0 million, or 39.2%. Carrier services revenue of $6.7 million represents a decrease of $2.9 million, or 30.0%, from the same period of a year ago, mainly due to a 31.5% decrease in the number of minutes transmitted over our network. Carrier Services revenue for the three and six months ended June 30, 2012 includes $0.1 million related to the settlement of our business interruption insurance claim in connection with losses incurred from Hurricane Sandy in October of 2012.

Revenues for the Business Services segment were $7.5 million in the three months ended June 30, 2013, as compared to $0.6 million for the three months ended June 30, 2012 due to the October 2012 acquisition of NBS.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $9.6 million for the three months ended June 30, 2013, compared to $9.0 million for the three months ended June 30, 2012. The increase is due to the costs attributed to NBS revenues not present in 2012, largely offset by the lower traffic volume in the Carrier Services segment. Consolidated gross margin was 32.5% in the three months ended June 30, 2013, compared to 12.3% in the same period for 2012. The increase is due to the higher mix of Business Services revenue in 2013 as a result of the NBS acquisition.

Gross margin for the Carrier Services segment was 11.9% for the three months ended June 30, 2013, compared to 10.9% in the three months ended June 30, 2012, primarily due to the insurance proceeds received in 2013 from our business interruption insurance claim. Gross margin for the Business Services segment was 51.1% in 2013, compared to 35.2%, in 2012, as NBS generates gross margins that are significantly higher than our pre-acquisition Business Services segment.

Depreciation and Amortization

Depreciation and amortization expense was $0.9 million for the three months ended June 30, 2013, as compared to $0.1 million during the same period of a year ago, mainly due to $0.6 million of amortization expense related to intangible assets acquired in the NBS transaction and depreciation expense on NBS fixed assets in 2013 not present in 2012.

SG&A

SG&A during the three months ended June 30, 2013 was $4.4 million, as compared to $2.2 million during the three months ended June 30, 2012. The increase was mainly due to SG&A associated with NBS in 2013 not present in the prior year, consisting primarily of employee compensation costs and commissions paid to third party selling agents.

Operating Loss

Our operating loss narrowed from $1.1 million for the three months ended June 30, 2012 to $0.7 million for the three months ending June 30, 2013. The improvement is a result of the $3.6 million increase in gross profit generated by our Business Services segment, largely offset by the increases in SG&A and depreciation and amortization expense and the $0.2 million decline in gross profit in the Carrier Services Segment.

Interest Expense

Interest expense increased by $0.6 million, in the three months ended June 30, 2013, as compared to the three months ended June 30, 2012, primarily due to $0.5 million of interest on the senior notes issued in October 2012 in connection with the NBS transaction and $0.1 million of non-cash interest expense associated with the amortization of debt discount and deferred financing fees related to the issuance of the senior notes.

Loss on Extinguishment of Debt

During the three months ended June 30, 2013, we recorded a loss on the extinguishment of debt of approximately $92,000 for the fair value of warrants to purchase shares of our common stock in connection with the conversion of debt into equity.

Other Income (Expenses)

During the three months ended June 30, 2013, we recorded other income, net, of $0.2 million, mainly due to the change in the fair value of a derivative liability related to warrants issued in connection with the issuance of our senior notes, as compared to other expenses, net, of $0.1 million in the same period of a year ago, consisting primarily of the loss on the sale of our accounts receivable.

Gain on Extinguishment of Accounts Payable

In June of 2013, pursuant to the advice of counsel and based on applicable laws, we determined that the Company no longer had any liability pertaining to a trade payable in the amount of $2,908,882. As a result, we derecognized this payable from our balance sheet and recorded a corresponding one-time gain on the extinguishment of accounts payable.

Net Income (Loss)

The net income of $1.7 million for the three months ended June 30, 2013, as compared to a net loss of $1.2 million for the three months ended June 30, 2012 is the result of the gain on the $2.8 million gain on extinguishment of debt, $0.4 million decrease in operating loss and $0.3 million increase in other income, net, partially offset by the $0.6 million increase in interest expense.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

Revenues

Consolidated revenues were $30.4 million during the six months ended June 30, 2013, compared to $21.8 million during the six months ended June 30, 2012, an increase of $8.6 million, or 39.7%. Carrier services revenue of $15.4 million represents a decrease of $5.1 million, or 25.0%, from the same period of a year ago, mainly due to a 30% decrease in the number of minutes transmitted over our network, partially offset by a 7.7% increase in the blended rate per minute of traffic terminated.

Revenues for the Business Services segment were $15.0 million in the six months ended June 30, 2013, as compared to $1.2 million for the six months ended June 30, 2012 due to the October 2012 acquisition of NBS.

Cost of Revenues and Gross Margin

Consolidated cost of revenues was $21.4 million for the first six months of 2013, compared to $19.0 million for the first six months of 2012. The increase is due to the costs attributed to NBS revenues not present in 2012, largely offset by the lower traffic volume in the Carrier Services segment. Consolidated gross margin was 29.7% in the six months ended June 30, 2013, compared to 12.6% in the same period for 2012. The increase is due to the higher mix of Business Services revenue in 2013 as a result of the NBS acquisition.

Gross margin for the Carrier Services segment was 9.8% for the six months ended June 30, 2013, compared to 11.3% for the first six months ended June 30, 2012, due to higher average rates for the cost of traffic terminated over our network. Gross margin for the Business Services segment was 50.4% in 2013, compared to 36.4%, in 2012, as NBS generates gross margins that are significantly higher than our pre-acquisition Business Services segment.

Depreciation and Amortization

Depreciation and amortization expense was $1.7 million for the six months ended June 30, 2013, as compared to $0.2 million during the same period of a year ago, mainly due to $1.1 million of amortization expense related to intangible assets acquired in the NBS transaction and $0.5 million of depreciation expense on NBS fixed assets in 2013 not present in 2012.

SG&A

SG&A for the first six months of 2013 was $8.7 million, as compared to $4.3 million during the first six months of 2012. The increase was mainly due to SG&A associated with NBS in 2013 not present in the prior year, consisting primarily of employee compensation costs and commissions paid to third party selling agents.

Operating Loss

Our operating loss of $1.4 million for the six months ended June 30, 2013 represents a decrease of $0.4 million from the six months ended June 30, 2012, as the $7.1 million increase in gross profit generated by our Business Services Segment was largely offset by the increases in SG&A and depreciation and amortization expense, as well as a $0.8 million decline in gross profit in our Carrier Services Segment.

Interest Expense

Interest expense increased by $1.2 million, in the six months ended June 30, 2013, as compared to the six months ended June 30, 2012, primarily due to $0.9 million of interest on the senior notes issued in October 2012 in connection with the NBS transaction and $0.2 million of non-cash interest expense associated with the amortization of debt discount and deferred financing fees related to the issuance of the senior notes.

Loss on Extinguishment of Debt

The loss extinguishment of debt of $0.2 million for the six months ended June 30, 2013 reflects the fair value of warrants to purchase shares of our common stock issued in connection with the conversions of debt into equity.

Other Income (Expenses)

During the six months ended June 30, 2013, we recorded other income, net, of $43,000, as compared to other expenses, net, of $0.2 million in the same period of a year ago. The change is mainly due to a gain on the change in fair value of the derivative liability and a decrease in the loss on the sale of our accounts receivable resulting from lower sales at our Carrier Services business segment.

Gain on Extinguishment of Accounts Payable

As previously discussed, in June of 2013, we derecognized a trade payable from our balance sheet and recorded a corresponding one-time gain on extinguishment of accounts payable.

Net Income (Loss)

The net income of $0.1 million for the six months ended June 30, 2013, as compared to a net loss of $2.0 million for the six months ended June 30, 2012 is the result of the gain on the $2.8 million gain on extinguishment of debt and $0.4 million decrease in operating loss, partially offset by the $1.2 million increase in interest expense.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating and net losses. In addition, we have yet to generate positive cash flow from operations. As of June 30, 2013, we had a stockholders' deficit of $3.8 million, as compared to $6.1 million at December 31, 2012, and a working capital deficit of $5.5 million, as compared to $8.0 million at December 31, 2012. We currently do not have sufficient cash or other financial resources to fund our operations and meet our obligations for the next twelve months. We will 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 the event that we are unable to secure the necessary funding to meet our working capital requirements and payment obligations, either through the sale of our securities or through other financing arrangements, we may be required to downsize, reduce our workforce, sell assets or possibly curtail some of our operations.

We have historically relied upon loans from related and non-related parties, primarily Marvin Rosen, our Chairman of the Board of Directors, and the sale of our equity securities to fund our operations. During fiscal 2012 and the first six months of 2013, we relied primarily on the sale of our accounts receivable, including unbilled receivables, under our agreement with Prestige Capital Corporation ("Prestige"), as well as the sale of our equity securities. As of June 30, 2013, approximately $0.7 million of our outstanding accounts receivable had been sold to Prestige.

As of June 30, 2013, our consolidated cash balance was approximately $0.8 million, exclusive of the $1.0 million of cash that is restricted under the terms of the Senior Notes (as defined below) and is reflected as restricted cash in our consolidated balance sheet. Substantially all of our unrestricted cash is held by NBS and is subject to the restricted payment provisions of the Senior Notes. Our long-term liquidity is dependent on our ability to generate positive cash flows from operations in both of our business segments. We cannot predict if and when we will be able to attain positive cash flows from operations in our Carrier Services business segment.

During the first six months of 2013, we entered into subscription agreements with 26 accredited investors, under which the Company issued an aggregate of 21,041,485 shares of common stock and five-year warrants to purchase 10,520,743 shares of the Company's common stock for gross proceeds of $1.8 million. The warrants are exercisable at 125% of the volume weighted-average price of the Company's common stock for the ten trading days prior to closing. On July 10, 2013, we entered into subscription agreements with an additional 12 accredited investors, under which we issued an aggregate of 10,362,174 shares of common stock and five-year warrants to purchase 5,181,087 shares of the Company's common stock for gross proceeds of $0.7 million. The warrants are exercisable at 125% of the volume-weighted average price of the Company's common stock for the 10 trading days prior to the date of closing.

On September 12, 2011, we entered into a purchase and sale agreement with 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 for funding our Carrier Services business and a substantial portion of the Company's SG&A obligations, and we expect that we will continue to utilize the agreement with Prestige to supplement our working capital needs until such time as we can consummate a traditional working capital line of credit.

In addition to purchasing our accounts receivable, Prestige has also from time to time provided us with secured working capital advances. During the first six months of 2013 we received $212,500 of advances from Prestige, approximately $181,000 of which was repaid during the period, along with advance fees of approximately $12,000. The remainder was repaid in July of 2013. We may receive similar advances on similar terms from time to time during the remainder of 2013, although Prestige is under no obligation to make such advances. The Prestige agreement is currently due to expire on June 15, 2014 but automatically renews for additional nine month periods unless either party receives written notice of cancellation within 60 days prior to the scheduled expiration date. 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 and a subordinated security interest in the other assets of our Carrier Services business segment.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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, 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 "Senior Notes"). The proceeds from the sale of the Senior Notes were used to finance the majority of the cash portion of the purchase price of NBS.

Each of the Senior 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 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 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 Senior Notes. We do not have the financial resources to repay the Senior Notes in the event of a default and acceleration of indebtedness.

As of June 30, 2013 we were in compliance with the financial covenants set forth in the SPA. At various times since May15, 2013 we were not in compliance with the \$1 million minimum cash balance requirement. Our failure to maintain the required cash balance represents an event of default under the terms of the SPA. On August 14, 2013, the Company and the Lenders entered into a Waiver and Amendment Agreement to the SPA (the "Waiver Agreement") whereby the Lenders agreed to waive the event of default through August 14, 2013, and amended the SPA to reduce the minimum cash balance requirement from \$1 million to \$0.5 million between May 15, 2013 and August 31, 2013, after which time the minimum cash balance requirement reverts to \$1 million. After giving effect to the terms of the Waiver Agreement, we have at all times been in compliance with the restrictive covenant pertaining to the minimum cash balance requirement.

In conjunction with the sale of the Senior 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 Senior Notes are paid in full. Although we did receive a short-term unsecured advance from Mr. Rosen of \$100,000 during the first six months of 2013, 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 our future liquidity needs. Additionally, in connection with the issuance of the Senior Notes, Prestige and the Lenders entered into an agreement establishing priorities among them and reach certain agreements as to enforcing their respective rights against the Company.

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.

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

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

	Six Months Ended June 30, 2013	2012
Cash from continuing operations:		
Cash used in operating activities	$ (649,220)	$ (1,318,589)
Cash used in investing activities	(536,028)	(80,448)
Cash provided by financing activities	1,428,937	2,195,647
Increase in cash and cash equivalents from continuing operations	243,689	796,610
Cash from discontinued operations	-	(1,490)
Net increase in cash and cash equivalents	243,689	795,120
Cash and cash equivalents, beginning of period	543,214	3,047
Cash and cash equivalents, end of period	$ 786,903	$ 798,167

Cash used in operating activities was approximately $0.6 million during the first six months of 2013, as compared to $1.3 million during the first six months of 2012. The following table illustrates the primary components of our cash flows from operations:

	2013	2012
Net income (loss)	$ 89,493	$ (2,020,571)
Non-cash expenses, gains and losses	(662,545)	485,746
Accounts receivable	(992,929)	528,647
Inventory	(92,776)	-
Accounts payable and accrued expenses	1,271,099	(257,245)
Other	(261,562)	(55,166)
Cash used in operating activities	$ (649,220)	$ (1,318,589)

Cash used in investing activities was $0.5 million in the first six months of 2013, as compared to $0.1 million in the first six months of 2012. The increase is due to higher capital expenditures in 2013. We expect our cash capital expenditures to be approximately $600,000 for the remainder of 2013, primarily for capital expenditures at NBS and additional infrastructure development for the Carrier Services business segment.

Cash provided by financing activities was $1.4 million in the first six months of 2013, as compared to $2.2 million in the first six months of 2012. The decrease reflects higher proceeds received from private placement activities in 2012 and the repayment of $0.3 million on the Sellers Notes in 2013.

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.

Debt Service Requirements

During the six months ended June 30, 2013, we made debt service payments on the Senior Notes of $0.9 million and repaid approximately $0.4 million of indebtedness held by related and unrelated parties. For the remainder of 2013, we expect to make principal and interest payments on our Senior Notes totaling approximately $1.1 million, payments under the Seller Notes of approximately $0.3 million and payments under equipment financing obligations of $0.1 million.

At June 30, 2013, we had obligations to Marvin Rosen, including the New Rosen Note, aggregating $4.2 million which are payable 60 days after the Senior Notes are repaid in full. Effective as of October 29, 2012, as permitted by the Subordination Agreement, Mr. Rosen is entitled to monthly interest payments on these obligations at a rate of 7% per annum. As of the date of this report we have not made any interest payments to Mr. Rosen. Mr. Rosen has agreed that any due but unpaid interest does not constitute an event of default under the New Rosen Note, and that all interest currently due under the New Rosen Note, as well as future interest that will accrue under the note, will be payable on ten days' prior written notice.

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, 2012, 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 other telecommunications carriers and to other businesses that terminate voice traffic over our network, and from the monthly recurring fees charged to customers that purchase our business products and services.

Variable revenue is earned based on the length (measured in minutes of 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. We believe that the nature of this process is such that recorded revenues are unlikely to be revised in the future.

Revenue earned from monthly services provided to our business services customers are fixed and recurring in nature, and are contracted for over a specified period of time. Revenue recognition commences after the provisioning, testing and acceptance of the service by the customer. The recurring customer charges continue until the expiration of the contract, or until cancellation of the service by the customer. To the extent that payments received from a customer are related to a future period, the payment is recorded as deferred revenue until the service is provided or the usage occurs.

Cost of Revenues

Cost of revenues is comprised primarily of costs incurred from other domestic and international communications carriers to originate, transport, and terminate voice calls for the Company's carrier and business 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. Call activity is tracked and analyzed with customized software that analyzes the traffic flowing through the Company's network switch. 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. 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 business customers and the cost of broadband Internet access used to provide service to both carrier and business customers.

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.

Back to Table of Contents

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 carrying value of the asset exceeds the projected undiscounted cash flows, we are required to estimate the fair value of the asset and recognize an impairment charge to the extent that the carrying value of the asset exceeds its estimated fair value. We did not record any impairment charges during the six months ended June 30, 2013 and 2012.

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 income tax assets and liabilities are computed for temporary 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 to reduce deferred income tax assets when we determine that it is more like than not that we will fail to generate sufficient taxable income to be able to utilize the deferred tax assets.

Property and Equipment

In accordance with Accounting Standards Codification 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*, we capitalize a portion of our payroll and related costs for the development of software for internal use and amortize these costs over three years. During the six months ended June 30 2013, we capitalized costs pertaining to the development of internally used software in the approximate amount of $0.4 million.

Recently Issued Accounting Pronouncements

During the six months ended June 30, 2013 and 2012, there were no new accounting pronouncements adopted by the Company that had a material impact on the Company's consolidated financial statements. Management does not believe there are any recently issued, but not yet effective, accounting pronouncements, if currently adopted, that would have a material effect on the Company's consolidated financial statements.

Inflation

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

Off Balance Sheet Arrangements

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

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

As of June 30, 2013, 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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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 new and continued capital to execute its comprehensive business strategy. There may be additional risks associated with the integration of businesses following an acquisition, the Company's ability to comply with its senior debt agreements, 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 ability to maintain working capital requirements to fund future operations or the Company's ability to attract and retain highly qualified management, technical and sales personnel, and the other factors identified by us from time to time in the Company's filings with the SEC. However, the risks included should not be assumed to be the only things that could affect future performance. We may, among other things, also be subject to service disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2013. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to accomplish their objectives.

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

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Risk factors describing the major risks to our business can be found under Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Except for the updated risk factor below, there have been no material changes to our risk factors from those previously disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

At various times since May 15, 2013 we were out of compliance with one of the restrictive covenants contained in our senior debt agreements, which constitutes an event of default.

Our acquisition of NBS was financed primarily through the issuance of senior notes in the aggregate principal amount of $16.5 million. The purchase agreement related to the senior notes (the "SPA") contains 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 $1 million, in excess of any amounts outstanding under a permitted working capital line of credit as well as any cash held at NBS. 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 repayment of the senior notes were to be accelerated. At various times since May 15, 2013, we were not in compliance with the $1 million minimum cash balance requirement. On August 14, 2013, the Company and the Lenders entered into a Waiver and Amendment Agreement to the SPA (the "Waiver Agreement") whereby the Lenders agreed to waive the event of default through August 14, 2013, and amended the SPA to reduce the minimum cash balance requirement from $1 million to $0.5 million between May 15, 2013 and August 31, 2013, after which time the minimum cash balance requirement reverts to $1 million.

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

On May 31, 2013, the Company entered into subscription agreements with 17 accredited investors, under which the Company issued an aggregate of 10,017,134 shares of common stock and five-year warrants to purchase 5,008,567 shares of the Company's common stock for aggregate consideration of $0.9 million. The warrants are exercisable at 125% of the volume weighted-average price of the Company's common stock for the ten trading days prior to closing.

On July 10, 2013, the Company entered into subscription agreements with 12 accredited investors, under which the Company issued an aggregate of 10,362,174 shares of common stock and five-year warrants to purchase 5,181,087 shares of the Company's common stock for aggregate consideration of $0.7 million. The warrants are exercisable at 125% of the volume-weighted average price of the Company's common stock for the 10 trading days prior to the date of closing.

In connection with the foregoing transactions, the Company had reasonable grounds to believe that each investor was an "accredited" investor within the meaning of Rule 501 of Regulation D, each investor represented that it was acquiring the securities for its own account for investment purposes only, no general solicitation or advertising was utilized in connection with the transactions, the certificates evidencing the securities bear a legend restricting their transferability except as permitted by applicable securities laws and the Company filed a corresponding Form D with the Securities and Exchange Commission. Accordingly, the transactions were exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Section 4(2) of that Act and/or Regulations D thereunder. The securities were sold through Noble Financial Capital Markets, a licensed broker-dealer, and commissions and fees of approximately $115,000 were paid to the placement agent in connection with these transactions. In addition, the right to purchase warrants to purchase approximately115,000 shares of the Company's common stock were also earned by the placement agent for its services. The net proceeds of these transactions were used primarily for working capital purposes.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5. OTHER INFORMATION.

At various times since May 15, 2013, the Company was not in compliance with the financial covenant contained in its Securities Purchase Agreement with its senior lenders (the “SPA”) requiring a $1 million minimum cash balance to be maintained by the Company. Failure to comply with the covenant constitutes an event of default under the terms of the SPA. On August 14, 2013, the Company and the Lenders entered into a Waiver and Amendment Agreement to the SPA (the “Waiver Agreement”) whereby the Lenders agreed to waive the event of default through August 14, 2013, and amended the SPA to reduce the minimum cash balance requirement from $1 million to $0.5 million between May 15, 2013 and August 31, 2013, after which time the minimum cash balance requirement reverts to $1 million.

ITEM 6. EXHIBITS.

EXHIBIT NO.	DESCRIPTION
10.76	Waiver and Amendment to Securities Purchase Agreement and Security Agreement dated as of August 14, 2013 by and among Fusion NBS Acquisition Corp., Fusion Telecommunications International, Inc., Network Billing Systems, LLC, Praesidian Capital Opportunity Fund III, LP, Praesidian Capital Opportunity Fund III-A, LP, Plexus Fund II, LP and Praesidian Capital Opportunity Fund III as agent.
31.1	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.

Back to Table of Contents

SIGNATURES

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

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

	By: /s/ **MATTHEW D. ROSEN**
	Matthew D. Rosen
August 19, 2013	Chief Executive Officer
	By: /s/ **GORDON HUTCHINS, JR.**
	Gordon Hutchins, Jr.
	President, Chief Operating Officer and Acting
August 19, 2013	Chief Financial Officer

Back to Table of Contents

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Exhibits

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EXHIBIT 10.76

WAIVER AND AMENDMENT TO SECURITIES PURCHASE AGREEMENT AND SECURITY AGREEMENT

THIS WAIVER AND AMENDMENT (this "***Waiver***") is entered into as of August 14, 2013, by and among FUSION NBS ACQUISITION CORP. a Delaware corporation ("***Borrower***"), FUSION TELECOMMUNICATIONS INTERNATIONAL, INC., a Delaware corporation ("***Parent***"), NETWORK BILLING SYSTEMS, LLC, a New Jersey limited liability company ("***NBS***" and together with Parent, the "Guarantors", and together with the Borrower, the "***Credit Parties***"), the financial institutions set forth on the signature pages hereto (each a "***Lender***" and collectively, "***Lenders***") and Praesidian Capital Opportunity Fund III, LP as agent for Lenders (in such capacity, "***Agent***").

BACKGROUND

Credit Parties, Lenders and Agent are parties to a Securities Purchase Agreement and Security Agreement dated as of October 29, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the ***"Loan Agreement"***) pursuant to which Agent and Lenders provide Borrower with certain financial accommodations.

Credit Parties have requested that Agent and Lenders amend the Loan Agreement and waive an Event of Default that has occurred and Agent and Lenders are willing to do so on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrower by Agent and Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Waiver. Credit Parties acknowledge that as of various times beginning on May 15, 2013 and continuing through the date hereof, they failed to maintain the amount of minimum cash required under Section 9.15(f) of the Loan Agreement and that such failure constitutes an Event of Default under Section 11.01(c) of the Loan Agreement (the ***"Specified Default"***). Subject to satisfaction of the conditions precedent set forth in Section 4 below, Agent and Lenders hereby waive such Event of Default.

3. Amendment of Financial Covenant. Subject to the satisfaction of the conditions precedent set forth in Section 4 below, the financial covenant set forth in Section 9.15 (f) of the Loan Agreement is hereby amended to read in its entirety as follows:

(f) Minimum Cash. The Parent, on a non-Consolidated Basis, (i) shall at all times other than during the period May 15, 2013 through August 31, 2013 have at least $1,000,000 of Cash Equivalents in excess of the amount of Working Capital Loans then outstanding, and (ii) shall at all times during the period May 15, 2013 through August 31, 2013 have at least $500,000 of Cash Equivalents in excess of the amount of Working Capital Loans then outstanding.

4. Conditions of Effectiveness. This Waiver shall become effective upon satisfaction of the following conditions precedent: Agent shall have received (i) four (4) copies of this Waiver executed by Credit Parties and Required Lenders and (ii) payment of Lenders' costs and expenses, including reasonably attorneys' fees and expenses in connection with this Amendment.

5. Representations and Warranties. Each Credit Party hereby represents and warrants as follows:

(a) This Waiver and the Loan Agreement constitute legal, valid and binding obligations of each Credit Party and are enforceable against each Credit Party in accordance with their respective terms.

(b) Upon the effectiveness of this Waiver, each Credit Party hereby reaffirms all covenants, representations and warranties made in the Loan Agreement, as amended hereby, and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Waiver.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Waiver.

(d) No Credit Party has any defense, counterclaim or offset with respect to the Loan Agreement.

6. Effect on the Loan Agreement.

(a) The Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, as amended hereby, shall remain in full force and effect, and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Waiver shall not, except as expressly provided in Section 2, operate as a waiver of any right, power or remedy of Agent or Lenders, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

(c) This Waiver shall be a Transaction Document for all purposes under the Loan Agreement.

(d) This Waiver applies solely with respect to the Specified Default and does not apply to, or constitute a waiver of, any other Default or Event of Default that exists or may exist under the Loan Agreement or any of the other Transaction Documents, including, without limitation, the Credit Parties' failure to comply with the covenant set forth in Section 9.15(f) of the Loan Agreement, as amended hereby. Except with respect to the Specified Default, such waiver does not (x) constitute a waiver of compliance by any Credit Party with respect to any other term, provision or condition of the Loan Agreement or any other Transaction Document, or any other instrument or agreement referred to therein; or (y) prejudice any right or remedy that the Lenders and Agent may now have or may have in the future under or in connection with the Loan Purchase Agreement or any other Transaction Document.

7. Governing Law. This Waiver shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

8. Release. In consideration of the agreements of Agent and Lenders contained herein, each Credit Party on behalf of itself and its successors, assigns, and other legal representatives, hereby, jointly and severally, absolutely, unconditionally and irrevocably releases, remises and forever discharges Agent and each Lender, and their present and former shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents and other representatives and their respective successors and assigns (Agent, each Lender and all such other parties being hereinafter referred to collectively as the "Releasees" and individually as a "Releasee"), of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, both at law and in equity, whether liquidated or unliquidated, matured or unmatured, asserted or unasserted, fixed or contingent, foreseen or unforeseen and anticipated or unanticipated, which such Credit Party, or any of its successors, assigns, or other legal representatives and its successors and assigns may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any nature, cause or thing whatsoever which arises at any time on or prior to the day and date of this Waiver, in relation to, or in any way in connection with the Loan Agreement, as amended and supplemented through the date hereof, this Waiver and the Transaction Documents.

9. Headings. Section headings in this Waiver are included herein for convenience of reference only and shall not constitute a part of this Waiver for any other purpose.

10. Counterparts; Facsimile. This Waiver may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission or electronic transmission of a "pdf" or similar file shall be deemed to be an original signature hereto.

IN WITNESS WHEREOF, this Waiver has been duly executed as of the day and year first written above.

Borrower:

FUSION NBS ACQUISITION CORP.

By: ______________________________
Name:
Title:

Guarantors:

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

By: ______________________________
Name:
Title:

Guarantors:

NETWORK BILLING SYSTEMS, LLC

By: ______________________________
Name:
Title:

[signature page to waiver to
securities purchase agreement and security agreement]

Lenders:

PRAESIDIAN CAPITAL OPPORTUNITY FUND III, L.P.

By: Capital Opportunity GP III, LLC,
its General Partner

By: ______________________________
Name:
Title: Manager

PRAESIDIAN CAPITAL OPPORTUNITY FUND III-A, L.P.

By: Praesidian Capital Opportunity GP III-A, LLC,
its General Partner

By: ______________________________
Name:
Title: Manager

PLEXUS FUND II, LP

By: Plexus Fund II GP,
its General Partner

By: ______________________________
Name:Michael Becker
Title: Manager

[signature page to
waiver to securities purchase agreement and security agreement]

Agent:

PRAESIDIAN CAPITAL OPPORTUNITY FUND III, L.P.

By: Praesidian Capital Opportunity GP III, LLC,
its General Partner

By: ______________________________
Name:
Title: Manager

[signature page to
waiver to securities purchase agreement and security agreement]

EXHIBIT 31.1

Certification of the Chief Executive Officer

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the "Report") of Fusion Telecommunications International, Inc., a Delaware corporation ("the Registrant");

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

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

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

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

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

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

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

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

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

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

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 19, 2013

By: /s/ **MATTHEW D. ROSEN**
Matthew D. Rosen

Chief Executive Officer

EXHIBIT 31.2

Certification of the Chief Financial Officer

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the "Report") of Fusion Telecommunications International, Inc., a Delaware corporation ("the Registrant");

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

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

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

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

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

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

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

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

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

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

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 19, 2013

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

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

Chief Financial Officer

EXHIBIT 32.1

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 19, 2013

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 June 30, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC.

August 19, 2013

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.