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FORM 10-Q

DELTATHREE INC - DDDC

Filed: August 14, 2009 (period: June 30, 2009)

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____ to _____

Commission File Number: 000-28063

deltathree, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

13-4006766
(I.R.S. Employer Identification Number)

419 Lafayette Street, New York, N.Y.
(Address of principal executive offices)

10003
(Zip Code)

(212) 500-4850
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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
Non-accelerated filer

Accelerated filer
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

As of August 10, 2009, the registrant had outstanding 71,932,405 shares of common stock, par value \$0.001 per share.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

DELTATHREE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(\$ in thousands)

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,355	\$ 1,788
Restricted cash and short-term investments	317	317
Accounts receivable, net	456	760
Prepaid expenses and other current assets	435	398
Inventory	<u>36</u>	<u>33</u>
Total current assets	<u>3,599</u>	<u>3,296</u>
Property and equipment, net	<u>898</u>	<u>1,441</u>
Deposits	<u>115</u>	<u>117</u>
Total assets	<u>\$ 4,612</u>	<u>\$ 4,854</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital leases	\$ 156	\$ 148
Accounts payable and accrued expenses	1,637	1,485
Deferred revenues	715	771
Other current liabilities	<u>1,954</u>	<u>1,615</u>
Total current liabilities	<u>4,462</u>	<u>4,019</u>
Long-term liabilities:		
Capital leases, net of current portion	67	147
Severance pay obligations	<u>107</u>	<u>140</u>
Total long-term liabilities	<u>174</u>	<u>287</u>
Total liabilities	<u>4,636</u>	<u>4,306</u>
Stockholders' equity:		
Class A common stock - par value \$0.001; authorized 75,000,000 shares; issued and outstanding: 32,870,105 at December 31, 2008, and 71,932,405 at June 30, 2009.	72	33
Additional paid-in capital	174,228	173,137
Accumulated deficit	<u>(174,324)</u>	<u>(172,622)</u>
Total stockholders' equity	<u>(24)</u>	<u>548</u>
Total liabilities and stockholders' equity	<u>\$ 4,612</u>	<u>\$ 4,854</u>

See notes to unaudited condensed consolidated financial statements.

DELTATHREE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(\$ in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>Revenues</i>	\$ 5,253	\$ 5,393	\$ 10,505	\$ 10,788
Costs and operating expenses:				
Cost of revenues	4,553	4,027	8,764	7,856
Research and development expenses	117	1,065	240	2,249
Selling and marketing expenses	301	1,178	687	2,416
General and administrative expenses	1,256	427	1,977	1,205
Restructuring costs	-	585	-	957
Write-down for Go2call intangible asset	-	475	-	475
Deferred revenue restatement	-	396	-	596
Depreciation and amortization	252	399	526	1,016
Total costs and operating expenses	6,479	8,552	12,194	16,770
<i>Loss from operations</i>	(1,226)	(3,159)	(1,689)	(5,982)
Capital gain	-	-	14	-
Other non-operating income	-	12	15	12
Interest (expense), net	(31)	(61)	(32)	(71)
<i>Net loss before taxes</i>	(1,257)	(3,208)	(1,692)	(6,041)
Income taxes	4	9	10	15
<i>Net loss</i>	\$ (1,261)	\$ (3,217)	\$ (1,702)	\$ (6,056)
Basic net loss per share	\$ (0.02)	\$ (0.10)	\$ (0.02)	\$ (0.18)
Basic weighted average number of shares outstanding	71,932,405	32,870,105	71,932,405	32,870,105

See notes to unaudited condensed consolidated financial statements.

DELTATHREE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(\$ in thousands)

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Loss for the period	\$ (1,702)	\$ (6,056)
Adjustments to reconcile loss for the period to net cash used in operating activities:		
Depreciation of property and equipment	526	1,016
Amortization of intangible assets	-	475
Write-off of fixed asset	20	-
Stock based compensation	60	127
Capital gain	(14)	-
Provision for losses on accounts receivable	180	10
Change in liability for severance pay, net	(33)	(154)
Exchange rates differences on deposits, net	2	(10)
Deferred revenue adjustments	-	396
Changes in assets and liabilities:		
Decrease in accounts receivable	124	111
(Increase) decrease in prepaid expenses and other current assets	(37)	53
(Increase) decrease in inventory	(3)	33
Increase (decrease) in accounts payable and accrued expenses	152	(694)
(Decrease) in deferred revenues	(56)	(33)
Increase in other current liabilities	343	609
	<u>1,264</u>	<u>1,939</u>
Net cash used in operating activities	<u>(438)</u>	<u>(4,117)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(49)	(241)
Proceeds from disposal of property and equipment	60	-
Decrease in short-term investments	-	2,987
Net cash provided by investing activities	<u>11</u>	<u>2,746</u>
Cash flows used in financing activities:		
Proceeds from issuance of shares, net	1,070	-
Payment of capital leases	(76)	(46)
Net cash provided by (used in) financing activities	<u>994</u>	<u>(46)</u>
Increase (decrease) in cash and cash equivalents	567	(1,417)
Cash and cash equivalents at beginning of period	1,788	1,649
Cash and cash equivalents at end of period	<u>\$ 2,355</u>	<u>\$ 232</u>

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Supplemental schedule of cash flow information:		
Cash paid for:		
Taxes	\$ 10	\$ 14
Supplemental schedule of investing and financing activities:		
Acquisition of capital leases	\$ -	\$ 198
Cash received from:		
Proceeds from issuance of shares	1,170	-
Direct costs paid for services due to issuance of shares	(100)	-
Total proceeds	<u>1,070</u>	<u>-</u>

See notes to unaudited condensed consolidated financial statements.

DELTATHREE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Financial Statement Preparation

The unaudited condensed consolidated financial statements of deltathree, Inc. and its subsidiaries (collectively referred to in this Quarterly Report on Form 10-Q as the “Company”, “we”, “us”, or “our”), of which these notes are a part, have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation of the financial information as of and for the periods presented have been included.

The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2008, included in our Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed with the SEC on May 15, 2009, and all of our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2008 fiscal year and through the date of this Report.

Going Concern

The Company has sustained significant operating losses in recent periods, which has resulted in a significant reduction in its cash reserves. As of June 30, 2009, the Company had negative working capital equal to approximately \$863,000 as well as negative stockholders' equity equal to approximately \$24,000. Management believes that the Company will continue to experience losses and increased negative working capital and negative stockholders' equity in the near future and may not be able to return to positive cash flow before it requires additional cash. There can be no assurance that the Company will be able to raise such additional capital on favorable terms or at all. If additional funds are raised through the issuance of equity securities, the Company's existing stockholders might experience significant further dilution. There can be no assurance that the Company's financial condition will improve in the foreseeable future. As a result of the foregoing factors, there is substantial doubt about the Company's ability to continue as a going concern.

Use of Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's stock option and stock incentive compensation plans, and the weighted-average number of shares of common stock outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money shares, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a share, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in additional paid-in capital, if any, when the share is exercised are assumed to be used to repurchase shares in the current period.

2. Stock-Based Compensation

A. Options

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period in accordance with the provisions of FAS 123R. The Company adopted the provisions of FAS 123R on January 1, 2006, the first day of the Company's fiscal year in 2006, using a modified prospective application. Under the modified prospective method, prior periods grant date fair values are not revised. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123).

The Company has no awards with market or performance conditions.

The Company used the implied volatility market-traded options in the Company's stock for the expected volatility assumption input in the Black-Scholes model, consistent with the guidance in FAS 123R.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the terms of the Company's employee stock options. The Company does not target a specific dividend yield for its dividends payments but is required to assume a dividend yield as an input to the Black-Scholes model. The dividend yield assumption is based on the Company's history and expectation of future dividends payout and may be subject to substantial change in the future. The expected life of employee stock options represent the period the stock options are expected to remain outstanding. The Black-Scholes model assumes that an employee's exercise behavior is a function of the option's remaining contractual life and the extent to which the option is in-the-money (i.e., the average market price of the underlying stock during the period is above the strike price of the stock option).

Options to purchase an aggregate of 820,000 shares of the Company's common stock were granted during the three months ended June 30, 2009.

B. Restricted shares and restricted units to purchase shares of the Company's common stock

The Company grants restricted shares and restricted units to purchase shares of the Company's common stock to retain, reward and motivate selected employees and directors whom we believe are critical to the future success of the Company. We record compensation expense associated with non-vested restricted shares that have been granted in accordance with FAS 123R. In accordance with FAS 123R, we calculate compensation expense on the date of grant (number of shares granted multiplied by the fair value of our common stock on the date of grant) and recognize this expense, adjusted for forfeitures, ratably over the applicable vesting period.

There were no restricted shares or restricted units to purchase shares of the Company's common stock granted during the three months ended June 30, 2009.

3. Commitments and Contingencies

Lease Commitments

Delta Three Israel Ltd., a wholly-owned subsidiary of the Company (the "Subsidiary"), leases a 1,290 square meter office that houses the Company's research and development facilities in Jerusalem, Israel. On May 10, 2009, the Subsidiary provided written notice to Jerusalem Technology Park, Ltd., the landlord for the Subsidiary's offices (the "Landlord"), that, in accordance with Section 6 of the Fifth Addendum, dated September 28, 2005, to the Lease Agreement (the "Lease"), dated May 28, 1997, between the Subsidiary and the Landlord (the "Lease") and the terms and conditions of the Lease, the Subsidiary is terminating the Lease for the Subsidiary's offices effective as of December 31, 2009. In connection therewith, prior to the termination of the Lease the Subsidiary will be required to pay the Landlord a termination fee equal to approximately \$45,000. Rent expense, net for the Subsidiary was \$59,411 for the three months ended June 30, 2009.

Legal Proceedings

On December 5, 2008, a complaint for patent infringement was filed in the United States District Court for the Eastern District of Texas (Tyler Division) by Centre One naming the Company, Verizon Communications Inc., Vonage Holdings Corp. and Vonage America Inc. as defendants. The complaint alleges, *inter alia*, that the Company and Verizon are offering for sale “a VoIP service, including, but not limited to, a service under the name Verizon VoiceWing” that infringes United States Patent No. 7,068,668, or Patent ’668, entitled “Method and Apparatus for Interfacing a Public Switched Telephone Network and an Internet Protocol Network for Multi-Media Communication.”

On February 23, 2009, defendants Vonage Holdings and Vonage America filed a motion to transfer the action from the United States District Court for the Eastern District of Texas (Tyler Division) to the United States District Court for the District of New Jersey. The transfer motion argued that none of the parties have meaningful contacts with the Eastern District of Texas and that most of the defendants’ evidence and fact witnesses are located in or near New Jersey. On March 6, 2009, the Company filed an Answer and Counterclaim, in which it denied that it has infringed Patent ’668 and sought declaratory judgments that: it has not infringed Patent ’668; any alleged infringement would not be actionable due to one or more of the Company’s affirmative defenses; and Patent ’668 is invalid and unenforceable due to inequitable conduct and a failure to meet the requirements of patentability. Also on March 6, 2009, the Company joined the Vonage defendants in moving to transfer the action to the United States District Court for the District of New Jersey. The transfer motions remain pending.

On April 7, 2009, the court held a status conference and assigned May 6, 2010, and December 6, 2010, as the dates for the pretrial hearing to interpret the construction of Centre One’s claims and the commencement of the trial, respectively.

On June 9, 2009, Centre One served a Disclosure of Asserted Claims and Infringement Contentions, in which it accused certain of the Company’s VoIP services, in addition to Verizon VoiceWing, of infringing Patent ’668. Centre One identified the Company’s Hosted Consumer VoIP Solutions, Consumer Group Global Internet Phone Service, and Reseller Programs as allegedly infringing.

On June 22, 2009, the court heard arguments on the transfer motions. The court denied the motions on August 10, 2009.

Separately, on June 22, 2009, the United States Patent and Trademark Office (the “PTO”) granted a request by Verizon Long Distance LLC to reexamine Patent ’668, and issued a non-final office action rejecting all but two of the 37 claims of Patent ’668 as not patentable. Centre One has a period of two months to respond to the office action and Verizon Long Distance has 30 days thereafter to comment on Centre One’s response. On July 8, 9, and 10, 2009, the Company and the other defendants moved to stay the litigation in the Eastern District of Texas pending the PTO’s reexamination of Patent ’668. Centre One opposed the stay motions on July 10, 2009.

The Company’s initial examination of the allegations set forth in the Complaint leads the Company to firmly believe that it does not infringe any valid claim of Patent ’668. The Company is continuing its examination into the allegations set forth in the complaint and the validity of Patent ’668, and cannot predict with any degree of certainty the results of its examination and/or the outcome of the suit or determine the extent of any potential liability or damages.

The Company has recently been informed that a sealed investigation is being conducted by a U.S. governmental agency that indirectly affects a number of corporations including the Company. The Company has been told by an attorney at the Department of Justice assisting in the handling of the matter that the Company is not a party to or a suspect in the investigation and that it is not required to assist or take any steps in connection with the investigation. The Company has also been informed that it is expected that the investigation will be “unsealed” in the near future, at which time the other corporations and the Company will be informed as to the nature of the investigation and the Company’s rights and responsibilities in connection therewith. Based on the foregoing, the Company believes that the investigation is not material to the Company and that its risk in relation thereto is minimal (if anything), and it has not accrued any amount as a contingent liability in connection with the investigation.

In addition, from time to time the Company is a party to legal proceedings, much of which is ordinary routine litigation incidental to the business, and is regularly required to expend time and resources in connection with such proceedings. Accordingly, the Company, in consultation with its legal advisors, accrues amounts that management believes it is probable the Company will be required to expend in connection with all legal proceedings to which it is a party.

Regulatory Taxes, Fees and Surcharges

The Company has completed a study of FCC-related fees that are due and has accrued approximately \$200,000 of estimated fees. The Company has also determined that it needs to collect and remit such FCC-related fees and will begin collecting and remitting such FCC-related fees and sales and excise taxes in the immediate future.

In addition, some state and local regulatory authorities believe they retain jurisdiction to regulate the provision of, and impose taxes, fees and surcharges on, intrastate Internet and VoIP telephony services, and have attempted to impose such taxes, fees and surcharges, such as a fee for providing E-911 service. Rulings by the state commissions on the regulatory considerations affecting Internet and IP telephony services could affect the Company's operations and revenues, and the Company cannot predict whether state commissions will be permitted to regulate the services the Company offers in the future.

The Company is in the process of examining the applicability of such state and other local taxes and other fees. It has completed a study of state and local taxes and other fees and has accrued approximately \$500,000 of estimated taxes and other fees. It has also determined that it needs to collect and remit sales and excise taxes in certain states and local jurisdictions and will begin collecting and remitting such sales and excise taxes in the immediate future. To the extent the Company increases the cost of services to its customers to recoup some of the costs of compliance, this will have the effect of decreasing any price advantage the Company may have over traditional telecommunications companies.

In addition, it is possible that the Company will be required to collect and remit taxes, fees and surcharges in other states and local jurisdictions where it has not done so, and which such authorities may take the position that the Company should have collected. If so, they may seek to collect those past taxes, fees and surcharges from the Company and impose fines, penalties or interest charges on the Company. Our payment of these past taxes, fees and surcharges, as well as penalties and interest charges, could have a material adverse effect on the business, results of operations and financial condition of the Company.

4. Subsequent Events

On July 29, 2009, the Company entered into an agreement with ACN Pacific Pty Ltd. ("ACN Pacific"), a wholly-owned subsidiary of ACN, Inc., pursuant to which the Company will provide digital phone and video VoIP telecommunications services to ACN Pacific. ACN Pacific will provide such services in combination with the products and services it makes available to be resold by its independent sales representatives in Australia. Under the agreement, ACN Pacific will pay the Company a one-time set-up fee of \$260,000 and a monthly subscriber-based fee thereafter. The Company will provide services under the agreement for a period of two years from the date of the launch of the services, which is expected to take place in mid-August 2009. The agreement can be terminated by either party for cause or upon 120 days notice, and by ACN Pacific upon 30 days notice if the parties cease to remain affiliated entities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Forward-Looking Statements

This MD&A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates, forecasts and projections about us, our future performance, the industries in which we operate our beliefs and our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Words such as "expect," "anticipate," "target," "goal," "project," "intend," "plan," "believe," "seek," "estimate," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to assess. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. These risks and uncertainties include, but are not limited to, the following:

- our ability to obtain additional capital in the near term to finance operations;
- our ability to reduce our costs and expenses and expand our revenues;
- our ability to retain key personnel and employees needed to support our services and ongoing operations;
- our failure to retain key customers;
- decreasing rates of all related telecommunications services;
- the public's acceptance of Voice over Internet Protocol, or VoIP, telephony, and the level and rate of customer acceptance of our new products and services;
- the competitive environment of Internet telephony and our ability to compete effectively;
- fluctuations in our quarterly financial results;
- our ability to maintain and operate our computer and communications systems without interruptions or security breaches;
- our ability to operate in international markets;
- our ability to provide quality and reliable service, which is in part dependent upon the proper functioning of equipment owned and operated by third parties;
- the uncertainty of future governmental regulation;
- the need for ongoing product and service development in an environment of rapid technological change; and
- other risks referenced from time to time in our filings with the SEC.

For a more complete list and description of such risks and uncertainties, as well as other risks, please refer to the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements or risk factors after the distribution of this MD&A, whether as a result of new information, future events, changes in assumptions or otherwise.

Overview

We are a well-known provider of integrated Voice over Internet Protocol, or VoIP, telephony services, products, hosted solutions and infrastructure. We were founded in 1996 to capitalize on the growth of the Internet as a communications tool by commercially offering Internet Protocol, or IP, telephony services, or VoIP telephony. VoIP telephony is the real-time transmission of voice communications in the form of digitized "packets" of information over the Internet or a private network, similar to the way in which e-mail and other data is transmitted. While we began as primarily a low-cost alternative source of wholesale minutes for carriers around the world, we have evolved into a well-known provider of next generation communication services.

Today we support tens of thousands of active users around the globe through our two primary distribution channels: our service provider and reseller channel, and our direct-to-consumer channel. We offer a broad suite of private label VoIP products and services as well as a back-office platform for service providers, resellers and corporate customers, such as VoIP operators and various corporate enterprises. Based on our customizable VoIP solutions, these customers can offer private label telecommunications to their own customer bases under their own brand name, a "white-label" brand (in which no brand name is indicated and different customers can offer the same product), or the deltathree brand. At the same time, our direct-to-consumer channel includes our iConnectHere offering (which provides VoIP products and services directly to consumers and small businesses online using the same primary platform) and our joip offering (which serves as the exclusive VoIP service provider embedded in the Globarange cordless phones of Panasonic Communications).

Following a comprehensive review of the company's strategy initiated by the Board of Directors, we have decided to focus our near-term strategy and market initiatives on growing our service provider business while still supporting our core VoIP reseller and direct-to-consumer business segments. While our revenues for the second quarter of 2009 remained substantially similar to our revenues for the first quarter of 2009, our net loss increased from approximately \$441,000 to approximately \$1,262,000. As a result, as of June 30, 2009, we had negative working capital equal to approximately \$863,000 and negative stockholders' equity equal to approximately \$24,000.

On February 12, 2009, we consummated a transaction with D4 Holdings, LLC, or D4 Holdings, pursuant to which, among other things, D4 Holdings acquired (i) 39,000,000 shares of our common stock, representing approximately 54.3% of the total number of issued and outstanding shares of our common stock following the transaction and (ii) a warrant, exercisable for ten years, to purchase up to an additional 30,000,000 shares of our common stock at an exercise price of \$0.04 per share. D4 Holdings is a private investment fund whose ownership includes owners of ACN, Inc., or ACN, a direct seller of telecommunications services. As a result of the investment in our company by D4 Holdings, we expect to seek opportunities to provide services to ACN and enter into other commercial transactions that give us access to ACN's international marketing and distribution capabilities. On July 29, 2009, we entered into an agreement with ACN Pacific Pty Ltd., or ACN Pacific, a wholly-owned subsidiary of ACN, pursuant to which we will provide digital phone and video VoIP telecommunications services to ACN Pacific. ACN Pacific will provide such services in combination with the products and services it makes available to be resold by its independent sales representatives in Australia. Under the agreement, ACN Pacific will pay us a one-time set-up fee of \$260,000 and a monthly subscriber-based fee thereafter. We will provide services under the agreement for a period of two years from the date of the launch of the services, which is expected to take place in mid-August 2009. The agreement can be terminated by either party for cause or upon 120 days notice, and by ACN Pacific upon 30 days notice if the parties cease to remain affiliated entities.

Results of Operations - Three Months Ended June 30, 2009, Compared to Three Months Ended June 30, 2008

Revenues

Revenues decreased approximately \$0.1 million, or 2%, to approximately \$5.3 million for the three months ended June 30, 2009 from approximately \$5.4 million for the three months ended June 30, 2008. Revenues from VoIP telephony services through our reseller and service provider sales efforts increased by approximately \$0.1 million, or 2%, to approximately \$4.7 million for the three months ended June 30, 2009 from approximately \$4.6 million for the three months ended June 30, 2008. This occurred primarily as a result of an increase in our revenues to our biggest reseller from \$0 in the second quarter of 2008 to approximately \$1.9 million in the second quarter of 2009. In addition, revenues from our second largest reseller increased from approximately \$0.9 million in the second quarter of 2008 to approximately \$1.0 million in the second quarter of 2009. At the same time, sales to direct end-users (including our iConnectHere and joip end-users) decreased by approximately \$0.2 million, or 28%, from approximately \$0.7 million for the three months ended June 30, 2008, to approximately \$0.5 million for the three months ended June 30, 2009. The decrease in end-user revenues was primarily due to a shift in our focus and resources away from our consumer business towards our service provider and reseller businesses. Within the reseller business itself, we made a decision in the first quarter of 2009 to focus on servicing fewer, larger resellers rather than more, smaller resellers. Consequently, our two largest resellers accounted for approximately \$2.94 million or approximately 67% of the reseller revenues generated in the second quarter of 2009. This represents approximately 56% of all revenues for the second quarter of 2009. By comparison, our two largest resellers in the second quarter of 2008 accounted for approximately \$1.36 million or approximately 37% of the reseller revenue generated, which equaled approximately 23% of the total revenue for the second quarter of 2008.

Revenues generated by our Outsourced Platform Solution fell by approximately \$0.6 million for the three months ended June 30, 2009, primarily due to the termination of our agreements with two customers. During 2008 one of these customers accounted for approximately 10.9% of our gross revenues; in the fourth quarter of 2008 this customer accounted for approximately 9.7% of our gross revenues. Due to the termination of our agreement with this customer we will not receive any more revenue as a result of this agreement, which could have a material adverse effect on our business, financial condition and results of operations.

Costs and Operating Expenses

Cost of revenues. Cost of revenues increased by approximately \$0.6 million, or 15%, to approximately \$4.6 million, at a 13% gross margin, for the three months ended June 30, 2009, from approximately \$4.0 million, at a 26% gross margin, for the three months ended June 30, 2008. The increase in cost of revenues for the second quarter of 2009 was primarily due to:

- pricing pressures affecting our margins, increasing our termination and network costs for the period by approximately \$0.7 million; and
- a reassessment of our cost allocation due to the reductions in force that occurred during 2008, which contributed an additional \$0.2 million to our cost of revenue.

These were partially offset by a decrease in salaries and related costs of approximately \$0.3 million due to the reductions in force that occurred during 2008.

Research and development expenses. Research and development expenses decreased by approximately \$1.0 million, or 91%, to approximately \$0.1 million for the three months ended June 30, 2009 from approximately \$1.1 million for the three months ended June 30, 2008. As a percentage of revenues, research and development expenses decreased to 2% for the three months ended June 30, 2009, from 19% for the three months ended June 30, 2008, due to the reductions in force that occurred during the second half of 2008.

Selling and marketing expenses. Selling and marketing expenses decreased by approximately \$0.9 million, or 75%, to approximately \$0.3 million for the three months ended June 30, 2009, from approximately \$1.2 million for the three months ended June 30, 2008. As a percentage of revenues, sales and marketing expenses decreased to 6% for the three months ended June 30, 2009, from 22% for the three months ended June 30, 2008. This decline was primarily caused by the decrease in sales commissions' expenses resulting from the decline in our revenue and the reductions in force that occurred during the second half of 2008.

General and administrative expenses. General and administrative expenses increased by approximately \$0.9 million, or 225%, to approximately \$1.3 million for the three months ended June 30, 2009, from approximately \$0.4 million for the three months ended June 30, 2008. As a percentage of revenues, general and administrative expenses increased to 25% for the three months ended June 30, 2009, from 7% for the three months ended June 30, 2008, primarily due to an increase in legal and professional fees and litigation and other related expenses.

Depreciation and amortization. Depreciation and amortization decreased by approximately \$0.1 million, or 25%, to approximately \$0.3 million for the three months ended June 30, 2009, from approximately \$0.4 million for the three months ended June 30, 2008. This was primarily due to amortization of the intangible asset that was recorded as a result of the Go2Call acquisition and write-offs of various fixed assets at the end of 2008, which substantially changed the base value of our fixed assets.

Restructuring costs. We did not record any reorganization expenses for the three months ended June 30, 2009. For the three months ended June 30, 2008, we recorded reorganization expenses totaling approximately \$0.6 million. These were primarily one-time costs related to reductions in force. In addition, we subleased our New York office for the remaining term of the lease and have accrued the shortfall due to the landlord and legal costs and broker fees associated with the sublease.

Write-down of Go2Call intangible asset. During the three months ended June 30, 2008, we wrote off \$475,000, approximately representing the entire amount of an asset we acquired as part of the Go2Call transaction in order to properly adjust the value of the intangible asset associated with that asset. No such expenses were recorded for the three months ended June 30, 2009.

Deferred revenue restatement. For the three months ended June 30, 2008, we restated the deferred revenue liability to include \$396,000 in deferred revenue. We did not take any such charge for the three months ended June 30, 2009.

Loss from Operations

As a result of the above, operating loss for the three months ended June 30, 2009, was approximately \$1.2 million, a decrease of 63% compared to the operating loss of approximately \$3.2 million for the three months ended June 30, 2008.

Interest Expense, Net

Interest expense, net decreased by approximately \$30,000 to approximately \$31,000 for the three months ended June 30, 2009 from net expense of approximately \$61,000 for the three months ended June 30, 2008.

Income Taxes, Net

We accrued net income taxes of approximately \$4,000 for the three months ended June 30, 2009, compared to approximately \$9,000, for the three months ended June 30, 2008. There was no income tax provisions recorded during the three months ended June 30, 2009, since we experienced a net loss for the period.

As of December 31, 2008, we had net operating loss carryforwards, or NOLs, generated in the U.S. of approximately \$80.0 million. Our issuance of common stock to D4 Holdings in February 2009 may constitute an "ownership change", as defined in Section 382 of the Internal Revenue Code, which may result in a loss of a substantial amount of the NOLs we have accrued and our ability to offset income that we may generate in the future. Our ability to use our remaining NOLs could be additionally reduced if we experience any further "ownership change," as defined under Section 382. We have not recorded deferred taxes in respect of the NOLs since it is unlikely that we will be able to utilize these NOLs.

Net Loss

For the three months ended June 30, 2009 we had a net loss of approximately \$1.3 million. For the three months ended June 30, 2008 we had a net loss of approximately \$3.2 million. The decrease in the net loss was due to the factors set forth above.

Results of Operations - Six Months Ended June 30, 2009, Compared to Six Months Ended June 30, 2008

Revenues

Revenues decreased by approximately \$0.3 million, or 3%, to approximately \$10.5 million for the six months ended June 30, 2009, from approximately \$10.8 million for the six months ended June 30, 2008. Revenues from VoIP telephony services through our reseller and service provider sales efforts increased approximately \$0.2 million, or 2%, to approximately \$9.3 million for the six months ended June 30, 2009, from approximately \$9.1 million for the six months ended June 30, 2008. This occurred primarily as a result of an increase in our revenues to our biggest reseller from \$0 in the first half of 2008 to approximately \$3.1 million in the first half of 2009. In addition, revenues from our second largest reseller increased from approximately \$1.5 million in the first half of 2008 to approximately \$2.0 million in the first half of 2009. At the same time, sales to direct end-users (including our iConnectHere and joip end-users) decreased by approximately \$0.4 million, or 27%, from approximately \$1.5 million for the six months ended June 30, 2008, to approximately \$1.1 million for the six months ended June 30, 2009. The decrease in end-user revenues was primarily due to a shift in our focus and resources away from our consumer business towards our service provider and reseller businesses. Within the reseller business itself, we made a decision in the first quarter of 2009 to focus on servicing fewer, larger resellers rather than more, smaller resellers. Consequently, our two largest resellers accounted for approximately \$5.25 million or approximately 64% of the reseller revenues generated in the first half of 2009. This represents approximately 50% of all revenues for the first half of 2009. By comparison, our two largest resellers in the first half of 2008 accounted for approximately \$2.38 million or approximately 33% of the reseller revenue generated, which equaled approximately 22% of the total revenue for the first half of 2008.

Revenues generated by our Outsourced Platform Solution fell by approximately \$0.9 million for the six months ended June 30, 2009, primarily due to the termination of our agreements with two material customers.

Costs and Operating Expenses

Cost of revenues. Cost of revenues increased by approximately \$0.9 million, or 11.4%, to approximately \$8.8 million, at a 16.6% gross margin, for the six months ended June 30, 2009, from approximately \$7.9 million, at a 27.2% gross margin, for the six months ended June 30, 2008. The increase in cost of revenues for the first half of 2009 was primarily due to:

- pricing pressures affecting our margins, which lead to an increase in our termination and network costs for the period by approximately \$1.4 million;
- a reassessment of our cost allocation due to the reductions in force that occurred during 2008, which contributed an additional \$0.4 million to our cost of revenue; and
- the incurrence of \$0.3 million of expenses for devices shipped to new customers.

These were partially offset by a decrease in salaries and related costs of approximately \$0.7 million due to the reductions in force that occurred during 2008 and one-time credits for settlement of old accounts payable of approximately \$0.1 million.

We also had the following one-time expenses during the first half of 2008 that affected our cost of revenues during that period:

- customer support costs of approximately \$0.2 million for our joip offering; and
- a restatement of revenues related to previous years of \$0.2 million, which was included in cost of sales for the first half of 2008.

Research and development expenses. Research and development expenses for the six months ended June 30, 2009, were approximately \$0.2 million, which represented a decrease of approximately 91% compared to research and development expenses of approximately \$2.2 million for the six months ended June 30, 2008. As a percentage of revenues, research and development expenses decreased to 1.9% for the six months ended June 30, 2009, from 20.4% for the six months ended June 30, 2008. Since salaries and related expenses are the main components that comprise this item, the decrease was mainly a result of the reductions in force that occurred during the second half of 2008.

Selling and marketing expenses. Selling and marketing expenses decreased by approximately \$1.7 million, or 71%, to approximately \$0.7 million for the six months ended June 30, 2009, from approximately \$2.4 million for the six months ended June 30, 2008. As a percentage of revenues, selling and marketing expenses decreased to 7% for the six months ended June 30, 2009, from 22% for the six months ended June 30, 2008. This decline was primarily caused by the decrease in sales commissions' expense and salaries resulting from our decline in our revenue and the reductions in force that occurred during the second half of 2008.

General and administrative expenses. General and administrative expenses increased by approximately \$0.8 million, or 67%, to approximately \$2.0 million for the six months ended June 30, 2009, from approximately \$1.2 million for the six months ended June 30, 2008. As a percentage of revenues, general and administrative expenses increased to 19% for the first half of 2009 from 11% for the first half of 2008, primarily due to an increase in legal and professional fees and litigation and other related expenses.

Depreciation and amortization. Depreciation and amortization decreased by approximately \$0.5 million, or 50%, to approximately \$0.5 million for the six months ended June 30, 2009, from approximately \$1.0 million for the six months ended June 30, 2008. This was primarily due to amortization of the intangible asset that was recorded as a result of the Go2Call acquisition and write-offs of various fixed assets at the end of 2008, which substantially changed the base value of our fixed assets.

Restructuring costs. We did not record any reorganization expenses for the six months ended June 30, 2009. For the six months ended June 30, 2008, we recorded reorganization expenses totaling approximately \$1.0 million. These were primarily one-time costs related to reductions in force. In addition, we subleased our New York office for the remaining term of the lease and have accrued the shortfall due to the landlord and legal costs and broker fees associated with the sublease.

Write-down of Go2Call intangible asset. During the first half of 2008, we wrote off approximately \$475,000, representing the entire amount of an asset we acquired as part of the Go2Call transaction in order to properly adjust the value of the intangible asset associated with that asset. We did not write off any intangible asset for the six months ended June 30, 2009.

Deferred revenue restatement. For the three months ended March 31, 2008, we took a \$200,000 charge as an initial estimate to the deferred revenue liability. As part of a continued review of the deferred revenue liability, we determined that amount was insufficient and adjusted such amount during the three months ended June 30, 2008, by an additional \$396,000. We did not take any such charge for the six months ended June 30, 2009.

Loss from Operations

As a result of the above, operating loss for the six months ended June 30, 2009, was approximately \$1.7 million, a decrease of 72% compared to the operating loss of approximately \$6.0 million for the six months ended June 30, 2008.

Interest Expense, Net

Interest expense, net decreased by approximately \$39,000, or 55%, to approximately \$32,000 for the six months ended June 30, 2009, from net expense of approximately \$71,000 for the six months ended June 30, 2008.

Income Taxes, Net

Income taxes, net decreased by approximately \$5,000, or 33%, to approximately \$10,000 for the six months ended June 30, 2009, from net expense of approximately \$15,000 for the six months ended June 30, 2008.

Net Loss

For the six months ended June 30, 2009, we had a net loss of approximately \$1.7 million, or \$0.02 per share. For the six months ended June 30, 2008, we had a net loss of approximately \$6.1 million or \$0.18 per share. The decrease in the net loss was due to the factors set forth above.

Liquidity and Capital Resources

Since our inception in 1996, we have incurred significant operating and net losses. As of June 30, 2009, we had an accumulated deficit of approximately \$174 million.

As of June 30, 2009, we had cash and cash equivalents of approximately \$2.4 million and restricted cash and short-term investments of approximately \$0.3 million, or a total of \$2.7 million in cash and restricted cash, which represented an increase of \$0.6 million as compared to \$2.1 million in cash and restricted cash as of December 31, 2008. On February 12, 2009, we issued to D4 Holdings 39,000,000 shares of our common stock for an aggregate purchase price of \$1,170,000, payable in cash, offset by \$0.1 million of costs incurred in the transaction. The increase in cash and restricted cash was primarily due to the net cash provided by financing activities of approximately \$1.1 million, as reduced by our losses during the first half of 2009.

During the six months ended June 30, 2009, we generated negative cash flow from operating activities of approximately \$0.4 million compared with negative cash flow from operating activities of approximately \$4.1 million during the six months ended June 30, 2008.

Our capital expenditures during the six months ended June 30, 2009, declined to \$49,000 compared to \$241,000 for the six months ended June 30, 2008. Due to the level of investment we had made in capital expenditures in previous years, we were only required to make minimal investments to maintain our overall utilization of our existing domestic and international network infrastructure. During the first half of 2009 we had proceeds of approximately \$60,000 from sales of equipment, which resulted in a capital gain of \$14,000.

We obtained our funding from our utilization of the remaining proceeds from our initial public offering, offset by positive or negative cash flow from our operations, and most recently from the sale of shares of our common stock to D4 Holdings in February 2009. These proceeds are maintained as cash, restricted cash and short term investments. As of June 30, 2009, we had negative working capital equal to approximately \$863,000 as well as negative stockholders' equity equal to approximately \$24,000. Management believes that we will continue to experience losses and increased negative working capital and negative stockholders' equity in the near future and may not be able to return to positive cash flow before we require additional cash. There can be no assurance that we will be able to raise such additional capital on favorable terms or at all. If additional funds are raised through the issuance of equity securities, our existing stockholders will experience significant further dilution. There can be no assurances that our financial condition will improve in the foreseeable future. As a result of the foregoing factors, there is substantial doubt about our ability to continue as a going concern.

Item 4T. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

Each of our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, has concluded that, based on such evaluation, and as a result of the material weaknesses described below, our disclosure controls and procedures were not adequate and effective to ensure that material information required to be disclosed by us in the reports that we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls.

During the course of 2008 we effected a series of reductions in force that caused the number of our employees to drop from 148 as of December 31, 2007, to 44 as of June 30, 2009. As a result of this sharp decline our ability to ensure a proper segregation of duties amongst different employees was severely curtailed. This had a material effect on our internal controls over financial reporting, and resulted in material weaknesses relating primarily to:

- recording of revenues and deferred revenues, primarily in the authorization, monitoring and segregation of duties over our billing system; and
- recording of cost of revenues, primarily in the authorization, monitoring and segregation of duties over our route purchasing system.

In discussion with our auditors we are currently actively attempting to determine how we will remediate these material weaknesses and prevent their reoccurrence, although we have not yet identified a specific course of action.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no material changes to our Legal Proceedings as described in Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, as filed with the SEC, except as described below.

On June 9, 2009, Centre One served a Disclosure of Asserted Claims and Infringement Contentions, in which it accused certain of our VoIP services, in addition to Verizon VoiceWing, of infringing Patent '668. Centre One identified our Hosted Consumer VoIP Solutions, Consumer Group Global Internet Phone Service, and Reseller Programs as allegedly infringing.

On June 22, 2009, the court heard arguments on the transfer motions. The court denied the motions on August 10, 2009.

Separately, on June 22, 2009, the United States Patent and Trademark Office (the "PTO") granted a request by Verizon Long Distance LLC to reexamine Patent '668, and issued a non-final office action rejecting all but two of the 37 claims of Patent '668 as not patentable. Centre One has a period of two months to respond to the office action and Verizon Long Distance has 30 days thereafter to comment on Centre One's response. On July 8, 9, and 10, 2009, we and the other defendants moved to stay the litigation in the Eastern District of Texas pending the PTO's reexamination of Patent '668. Centre One opposed the stay motions on July 10, 2009.

We have recently been informed that a sealed investigation is being conducted by a U.S. governmental agency that indirectly affects a number of corporations including us. We have been told by an attorney at the Department of Justice assisting in the handling of the matter that we are not a party to or a suspect in the investigation and that we are not required to assist or take any steps in connection with the investigation. We have also been informed that it is expected that the investigation will be "unsealed" in the near future, at which time the other corporations and we will be informed as to the nature of the investigation and our rights and responsibilities in connection therewith. Based on the foregoing, we believe that the investigation is not material to us and that our risk in relation thereto is minimal (if anything), and we have not accrued any amount as a contingent liability in connection with the investigation.

We are not a party to any other material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we are a party or of which any of our property is the subject.

Item 1A. Risk Factors.

There have been no material changes to our risk factors as described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the SEC, except to the extent additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors and except as described below.

We are substantially dependent upon a few material customers, and any significant decline in our sales to those customers could have a material adverse effect on our revenues.

In 2008, one customer accounted for approximately 16.5% of our annual gross revenues. In the second quarter of 2009, this customer accounted for approximately 37% of our gross revenues and another customer accounted for approximately 19% of our gross revenues for the quarter. We have no long-term agreements with these customers, and we have no assurance that they will continue to purchase services from us in the future. Any significant decline in our sales to, or our ability to collect accounts receivables from, these customers could have a material adverse effect on our business, results of operations and financial condition. In addition, because we have recently begun focusing on servicing fewer, larger reseller customers rather than many, smaller reseller customers, it is probable that our dependence upon a few material customers will increase in the future.

In addition, during 2008 a different customer accounted for approximately 10.9% of our gross revenues; in the fourth quarter of 2008 this customer accounted for approximately 9.7% of our gross revenues. In January 2009, we received notice from this customer that no later than May 15, 2009, our service provider contract would be terminated pursuant to the terms of the agreement. Accordingly, we will not receive any more revenue as a result of this agreement, which could have a material adverse effect on our business, results of operations and financial condition.

We believe that we will need additional capital to continue our operations.

We have sustained significant operating losses in recent periods, which have led to a significant reduction in our cash reserves. As of June 30, 2009, we had negative working capital of approximately \$863,000 as well as negative stockholders' equity of approximately \$24,000. Management believes that we will continue to experience losses and increased negative working capital and negative stockholders' equity in the near future and will not be able to return to positive cash flow before we require additional cash. Accordingly, we believe that, unless we are able to increase our revenues, we will not have sufficient funds to continue our current operations over the foreseeable future if we do not receive additional financing. There can be no assurance that we will be able to raise such additional capital on favorable terms or at all. In addition, as a result of D4 Holdings' controlling interest in our company, D4 Holdings will be able to exercise a controlling influence over future issuances of capital stock or other securities by us and a third party may be deterred from investing in us.

We need to retain key personnel to support our products and ongoing operations.

The marketing and operations of our VoIP products and services will continue to place a significant strain on our limited personnel, management, and other resources. Our future success depends upon the continued services of our executive officers and other key employees whom we rely upon to run our operations; this is particularly true following the significant reduction in the number of employees that occurred as a result of the reductions in force during 2008. Currently, except for employees providing sales support, there is only one employee in our company dedicated to sales and business development. Except for Mr. Effi Baruch, our interim Chief Executive Officer and President, and Senior Vice President of Technology and Operations, none of our officers or key employees is subject to an employment agreement for any specific term. The loss of the services of any of these officers or key employees could impact our ability to run our operations and delay the development and introduction of, and negatively impact our ability to sell, our products, either of which could adversely affect our financial results. We currently do not maintain key person life insurance policies on any of our employees.

Item 6. Exhibits.

See Exhibit Index on page 19 for a description of the documents that are filed as Exhibits to this Quarterly Report on Form 10-Q or incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

DELTATHREE, INC.

Date: August 14, 2009

By: /s/ Effi Baruch
Name: Effi Baruch
Title: Interim Chief Executive Officer and President,
Senior Vice President of Operations and Technology
(Principal Executive Officer)

Date: August 14, 2009

By: /s/ Ziv Zviel
Name: Ziv Zviel
Title: Chief Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation.
10.1	deltathree, Inc. 2009 Stock Incentive Plan (incorporated by reference from our Definitive Proxy Statement on Schedule 14A filed on June 22, 2009).
10.2	Form of deltathree, Inc. 2009 Stock Incentive Plan Incentive Stock Option Grant Agreement.
10.3	Form of deltathree, Inc. 2009 Stock Incentive Plan Nonstatutory Stock Option Grant Agreement (for U.S. taxpayers).
10.4	Form of deltathree, Inc. 2009 Stock Incentive Plan Nonstatutory Stock Option Grant Agreement under Section 102(b)(2) of the Israeli Income Tax Ordinance (for Israeli taxpayers).
10.5	Form of deltathree, Inc. 2009 Stock Incentive Plan Nonstatutory Stock Option Grant Agreement under Section 3(i) of the Israeli Income Tax Ordinance (for Israel taxpayers).
10.6	Form of deltathree, Inc. 2009 Stock Incentive Plan Restricted Stock Award Agreement (for U.S. taxpayers).
10.7	Form of deltathree, Inc. 2009 Stock Incentive Plan Restricted Stock Award Agreement (for Israeli taxpayers).
10.8	Offer of Employment Letter between the Company and Ziv Zviel, dated as of June 18, 2009 (incorporated by reference from our Current Report on Form 8-K filed on June 18, 2009).
31.1	Certification of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer, as adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer, as adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
DELTATHREE, INC.

(pursuant to Section 242 of the Delaware General Corporation Law)

deltathree, Inc., a Delaware corporation, hereby certifies as follows:

1. The name of the corporation is deltathree, Inc. (hereinafter the "Corporation").

2. The Corporation's Certificate of Incorporation was initially filed with the Secretary of State of the State of Delaware on January 27, 1998. Such Certificate of Incorporation was amended on May 17, 1999. The Certificate of Incorporation was amended and restated on September 24, 1999, and such Amended and Restated Certificate of Incorporation was further amended on November 19, 1999, and on December 11, 2000. The Amended and Restated Certificate of Incorporation was amended and restated on July 2, 2002.

3. The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Article Fourth thereof and replacing it with the following:

"FOURTH: (a) Authorized Capital Stock. The total number of shares of stock which the Corporation shall have authority to issue is 225,000,000 shares of capital stock, consisting of (i) 200,000,000 shares of common stock, par value \$0.001 per share (the "Common Stock") and (ii) 25,000,000 shares of preferred stock, par value \$0.001 per share (the "Preferred Stock"). Effective upon the filing of this Amendment to the Amended and Restated Certificate of Incorporation, without any further action on the part of the Company or its stockholders, (i) each share of the Company's Class A common stock, par value \$0.001 per share (the "Class A Common Stock") outstanding immediately prior thereto shall be redesignated as one share of Common Stock (and outstanding certificates that had theretofore represented shares of Class A Common Stock shall thereupon represent the number of shares of Common Stock they have been converted into despite the absence of any indication thereon to that effect), and (ii) all references to the Class A Common Stock or any right to purchase or acquire the Class A Common Stock (whether in the Amended and Restated Certificate of Incorporation or otherwise) shall refer to the Common Stock.

(b) Common Stock. The powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock are as follows:

(1) Voting Rights. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of the Amended and Restated Certificate of Incorporation, as it may be amended from time to time, each share of Common Stock shall entitle the holder thereof to one (1) vote upon all matters upon which stockholders shall have the right to vote. The holders of Common Stock are not entitled to cumulative voting rights.

(2) Dividends; Stock Splits. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of the Amended and Restated Certificate of Incorporation, as it may be amended from time to time, holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation when, as and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation, Dissolution, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the remaining assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, ratably in proportion to the number of shares of Common Stock held by them.

(4) No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

(5) Power to Sell and Purchase Shares. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock herein or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. Subject to the requirements of applicable law, the Corporation shall have the power to purchase any shares of any class of stock herein or hereafter authorized from such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

(c) Preferred Stock. The Board of Directors is hereby expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series and as may be permitted by the GCL, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.”

4. The foregoing amendment was duly adopted in accordance with Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be duly executed on its behalf this 6th day of August, 2009.

DELTATHREE, INC.

By: /s/ Peter Friedman
Name: Peter Friedman
Title: General Counsel and Secretary

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

INCENTIVE STOCK OPTION GRANT

This INCENTIVE STOCK OPTION GRANT AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

RECITALS

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Option; Incentive Stock Option Status. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant an option (the "Option") to purchase _____ shares of Stock at an exercise price of \$ _____ per share of Stock, subject to adjustment as set forth in Sections 8.1 and 8.2 of the Plan. This Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, notwithstanding such designation, the Option will qualify as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code (as such limitation may be amended from time to time) is not exceeded. The \$100,000 limitation of Section 422(d) of the Code is calculated based on the aggregate Market Value of the shares subject to options designated as Incentive Stock Options which become exercisable for the first time by the Participant during any calendar year (under all incentive plans of the Company or any "parent corporation" or "subsidiary corporation" of the Company (as such terms are defined in Section 424 of the Code)). For purposes of this calculation, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Market Value of the shares subject to such options shall be determined as of the grant date of the relevant option.

2. Exercisability of Option. Subject to the provisions of this Agreement, the Option shall become exercisable on the following dates, if the Participant continues to provide Service (as defined in the Plan) to the Company or its Affiliates from the Grant Date through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Stock subject to the Option. If the foregoing schedule would produce fractional shares of Stock, the number of shares of Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Stock.

3. Term of Option; Change in Status of Incentive Option.

(a) The Option shall have a term of ten (10) years from the Grant Date, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Agreement or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's Service terminates on account of death or Disability (as defined in the Plan), the expiration of the one-year period following the date of the Participant's termination of Service on account of death or Disability; provided, however, that if such Disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, this Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Nonstatutory Option on the day three (3) months and one (1) day following the date of the Participant's termination of Service on account of Disability.

(ii) If the Participant's Service terminates for any reason other than on account of death, Disability, or termination for Cause (as defined in the Plan), the expiration of the 90 day period following the date of the Participant's termination of Service for any reason other than on account of death, Disability, or termination for Cause.

(iii) If the Participant's Service is terminated for Cause (unless the Committee determines otherwise), the date on which the Participant's Service is terminated.

Notwithstanding the foregoing, in no event may the Option be exercised after the tenth anniversary of the Grant Date. Any portion of the Option that is not exercisable at the time the Participant ceases to provide Service shall immediately terminate as of such date.

(c) In the event that the Participant's status changes from employee of the Company or an Affiliate to director or consultant of the Company or an Affiliate, this Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Nonstatutory Option on the day three (3) months and one (1) day following such change in status.

4. Exercise Procedures.

(a) Subject to the provisions of Sections 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by delivering to the Company written notice of intent to exercise in the manner provided in this Agreement, specifying the number of shares of Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Stock. The Participant shall pay the exercise price (i) in cash, by check or cash equivalent; (ii) by tender to the Company of shares of Stock owned by the Participant having a Market Value (as defined in the Plan) equal to the exercise price of the shares of Stock to be purchased; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by any combination thereof. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Stock, or such other representations as the Committee deems appropriate. No portion of the Option may be exercised during a period which the Committee designates in writing as a prohibited exercise period.

(c) All obligations of the Company under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, including without limitation, such other tax obligations of the Participant incident to the receipt of Stock or the disqualifying disposition of Stock received on exercise of an Incentive Stock Option.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or exercisability of the Option unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Option, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Transfer and Exercise. Except as otherwise provided in the Plan, the Option shall not be transferable, and neither the Option nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Only the Participant or its legal representatives may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the guardian or legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Option grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Option, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Stock underlying the Option unless the shares of Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") and the laws of the applicable state or other jurisdiction, or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act and the laws of the applicable state or other jurisdiction. Any stock issued upon exercise of the Option may bear one or more legends reflecting the foregoing restrictions or other restrictions imposed by the Plan or this Agreement.

(b) As a condition to receive any shares of Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. The grant of this Option shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Stock subject to the Option, until certificates for shares of Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. The rights and interests of the Participant under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the Option described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

NONSTATUTORY STOCK OPTION GRANT

This NONSTATUTORY STOCK OPTION GRANT AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

RECITALS

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Option; Nonstatutory Stock Option Status. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant a nonstatutory stock option (the "Option") to purchase _____ shares of Stock at an exercise price of \$_____ per share of Stock, subject to adjustment as set forth in Sections 8.1 and 8.2 of the Plan. This Option is not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. Exercisability of Option. Subject to the provisions of this Agreement, the Option shall become exercisable on the following dates, if the Participant continues to provide Service (as defined in the Plan) to the Company or its Affiliates from the Grant Date through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Stock subject to the Option. If the foregoing schedule would produce fractional shares of Stock, the number of shares of Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Stock.

3. Term of Option.

(a) The Option shall have a term of ten (10) years from the Grant Date, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Agreement or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's Service terminates on account of death or Disability (as defined in the Plan), the expiration of the one-year period following the date of the Participant's termination of Service on account of death or Disability.

(ii) If the Participant's Service terminates for any reason other than on account of death, Disability, or termination for Cause (as defined in the Plan), the expiration of the 90 day period following the date of the Participant's termination of Service for any reason other than on account of death, Disability, or termination for Cause.

(iii) If the Participant's Service is terminated for Cause (unless the Committee determines otherwise), the date on which the Participant's Service is terminated.

Notwithstanding the foregoing, in no event may the Option be exercised after the tenth anniversary of the Grant Date. Any portion of the Option that is not exercisable at the time the Participant ceases to provide Service shall immediately terminate as of such date.

4. Exercise Procedures.

(a) Subject to the provisions of Sections 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by delivering to the Company written notice of intent to exercise in the manner provided in this Agreement, specifying the number of shares of Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Stock. The Participant shall pay the exercise price (i) in cash, by check or cash equivalent; (ii) by tender to the Company of shares of Stock owned by the Participant having a Market Value (as defined in the Plan) equal to the exercise price of the shares of Stock to be purchased; (iii) by surrender of the Option as to all or part of the shares of Stock for which the Option is then exercisable in exchange for shares of Stock having an aggregate Market Value equal to the difference between the aggregate Market Value of the surrendered portion of the Option and the aggregate exercise price for the surrendered portion of the Option; (iv) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (v) by any combination thereof. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Stock, or such other representations as the Committee deems appropriate. No portion of the Option may be exercised during a period which the Committee designates in writing as a prohibited exercise period.

(c) All obligations of the Company under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or exercisability of the Option unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Option, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Transfer and Exercise. Except as otherwise provided in the Plan, the Option shall not be transferable, and neither the Option nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Only the Participant or its legal representatives may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the guardian or legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Option grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Option, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Stock underlying the Option unless the shares of Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") and the laws of the applicable state or other jurisdiction, or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act and the laws of the applicable state or other jurisdiction. Any stock issued upon exercise of the Option may bear one or more legends reflecting the foregoing restrictions or other restrictions imposed by the Plan or this Agreement.

(b) As a condition to receive any shares of Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. The grant of this Option shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Stock subject to the Option, until certificates for shares of Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. The rights and interests of the Participant under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the Option described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

NONSTATUTORY STOCK OPTION GRANT
102 CAPITAL GAINS TRACK GRANT
UNDER SECTION 102(B)(2) OF THE ISRAELI INCOME TAX ORDINANCE

This NONSTATUTORY STOCK OPTION GRANT AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

RECITALS

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan, including Appendix A – Israeli Participants thereto (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Option; Stock Option Status; Compliance with Section 102 Requirements.

(a) Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant a stock option (the "Option") to purchase _____ shares of Stock at an exercise price of \$ _____ per share of Stock, subject to adjustment as set forth in Sections 8.1 and 8.2 of the Plan, and subject to the terms and conditions of Section 102, the Plan and the trust agreement (the "Trust Agreement"), entered into between the Company and [_____] (the "Trustee"). The Option is granted as a 102 Capital Gains Track Grant, as defined in Appendix A to the Plan. This Option is not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

(b) The Option will be registered in the name of the Trustee (to the extent required by law to qualify under Section 102) for the benefit of the Participant. Participant shall comply with the ITO, the Rules, and the terms and conditions of the Trust Agreement. The Trustee will hold the Option or the shares of Stock to be issued upon exercise of the Option for the Required Holding Period, as set forth in Appendix A to the Plan. The Participant hereby undertakes to release the Trustee from any liability in respect of any action or decision duly taken by the Trustee (except for any such actions or decisions taken in gross negligence or willful misconduct) in relation to the Plan, or any Option or share of Stock granted to him thereunder. The Participant hereby confirms that he shall execute any and all documents which the Company or the Trustee may reasonably determine to be necessary in order to comply with the ITO and the Rules.

2. Exercisability of Option. Subject to the provisions of this Agreement, the Option shall become exercisable on the following dates, if the Participant continues to provide Service (as defined in the Plan) to the Company or its Affiliates from the Grant Date through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Stock subject to the Option. If the foregoing schedule would produce fractional shares of Stock, the number of shares of Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Stock.

3. Term of Option.

(a) The Option shall have a term of ten (10) years from the Grant Date, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Agreement or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's Service terminates on account of death or Disability (as defined in the Plan), the expiration of the one-year period following the date of the Participant's termination of Service on account of death or Disability.

(ii) If the Participant's Service terminates for any reason other than on account of death, Disability, or termination for Cause (as defined in the Plan), the expiration of the 90 day period following the date of the Participant's termination of Service for any reason other than on account of death, Disability, or termination for Cause.

(iii) If the Participant's Service is terminated for Cause (unless the Committee determines otherwise), the date on which the Participant's Service is terminated.

Notwithstanding the foregoing, in no event may the Option be exercised after the tenth anniversary of the Grant Date. Any portion of the Option that is not exercisable at the time the Participant ceases to provide Service shall immediately terminate as of such date.

4. Exercise Procedures.

(a) Subject to the provisions of Sections 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by delivering to the Company (or, if applicable, the Trustee) written notice of intent to exercise in the manner provided in this Agreement (or in such other form as the Company and/or the Trustee may from time to time prescribe), specifying the number of shares of Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Stock. The Participant shall pay the exercise price (i) in cash, by check or cash equivalent; (ii) by tender to the Company of shares of Stock owned by the Participant having a Market Value (as defined in the Plan) equal to the exercise price of the shares of Stock to be purchased (to the extent permitted under the terms of Section 102, as determined by the Committee); (iii) by surrender of the Option as to all or part of the shares of Stock for which the Option is then exercisable in exchange for shares of Stock having an aggregate Market Value equal to the difference between the aggregate Market Value of the surrendered portion of the Option and the aggregate exercise price for the surrendered portion of the Option (to the extent permitted under the terms of Section 102, as determined by the Committee); (iv) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (v) by any combination thereof. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Stock, or such other representations as the Committee deems appropriate. No portion of the Option may be exercised during a period which the Committee designates in writing as a prohibited exercise period.

(c) The Company will notify the Trustee of any exercise of an Option. If such notification is delivered during the Required Holding Period, the shares of Stock issued upon the exercise of the Option shall be issued in the name of the Trustee and held in trust on the Participant's behalf by the Trustee. In the event that such notification is delivered after the end of the Required Holding Period, the shares of Stock issued upon the exercise of the Options shall either (i) be issued in the name of the Trustee, subject to the Trustee's prior written consent, or (ii) be transferred to the Participant directly, provided that all withholding required under Section 102 has been withheld. In the event that the Participant elects to have the Shares transferred to the Participant without selling such shares of Stock, the Participant shall become liable to pay taxes immediately upon such transfer in accordance with the provisions of Section 102.

(d) All obligations of the Company under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or exercisability of the Option unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Option, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Transfer and Exercise. Except as otherwise provided in the Plan, the Option shall not be transferable, and neither the Option nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Only the Participant or its legal representatives may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the guardian or legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Option grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Option, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Stock underlying the Option unless the shares of Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") and the laws of the applicable state or other jurisdiction, or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act and the laws of the applicable state or other jurisdiction. Any stock issued upon exercise of the Option may bear one or more legends reflecting the foregoing restrictions or other restrictions imposed by the Plan or this Agreement.

(b) As a condition to receive any shares of Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. The grant of this Option shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Stock subject to the Option, until certificates for shares of Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. The rights and interests of the Participant under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the Option described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement, as well as Section 102 and the Rules promulgated in connection therewith, and the Trust Agreement. Furthermore, I agree that the Option will be issued to the Trustee to hold on my behalf, pursuant to the terms of the ITO, the Rules and the Trust Agreement. In addition, I confirm that I am familiar with the terms and provisions of Section 102, particularly the Capital Gains Track described in subsection (b)(2) thereof, and agree that I will not require the Trustee to release the Option or shares of Stock to me or to sell the Option or shares of Stock to a third party, during the Restricted Holding Period, unless permitted to do so by applicable law. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

NONSTATUTORY STOCK OPTION GRANT
UNDER SECTION 3(I) OF THE ISRAELI INCOME TAX ORDINANCE

This NONSTATUTORY STOCK OPTION GRANT AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

RECITALS

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan, including Appendix A – Israeli Participants thereto (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Option; Nonstatutory Stock Option Status. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant a nonstatutory stock option (the "Option") to purchase _____ shares of Stock at an exercise price of \$ _____ per share of Stock, subject to adjustment as set forth in Sections 8.1 and 8.2 of the Plan. This Option is granted as a 3(i) Option grant, as defined in Appendix A to the Plan. This Option is not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. Exercisability of Option. Subject to the provisions of this Agreement, the Option shall become exercisable on the following dates, if the Participant continues to provide Service (as defined in the Plan) to the Company or its Affiliates from the Grant Date through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Stock subject to the Option. If the foregoing schedule would produce fractional shares of Stock, the number of shares of Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Stock.

3. Term of Option.

(a) The Option shall have a term of ten (10) years from the Grant Date, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Agreement or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's Service terminates on account of death or Disability (as defined in the Plan), the expiration of the one-year period following the date of the Participant's termination of Service on account of death or Disability.

(ii) If the Participant's Service terminates for any reason other than on account of death, Disability, or termination for Cause (as defined in the Plan), the expiration of the 90 day period following the date of the Participant's termination of Service for any reason other than on account of death, Disability, or termination for Cause.

(iii) If the Participant's Service is terminated for Cause (unless the Committee determines otherwise), the date on which the Participant's Service is terminated.

Notwithstanding the foregoing, in no event may the Option be exercised after the tenth anniversary of the Grant Date. Any portion of the Option that is not exercisable at the time the Participant ceases to provide Service shall immediately terminate as of such date.

4. Exercise Procedures.

(a) Subject to the provisions of Sections 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by delivering to the Company written notice of intent to exercise in the manner provided in this Agreement, specifying the number of shares of Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Stock. The Participant shall pay the exercise price (i) in cash, by check or cash equivalent; (ii) by tender to the Company of shares of Stock owned by the Participant having a Market Value (as defined in the Plan) equal to the exercise price of the shares of Stock to be purchased; (iii) by surrender of the Option as to all or part of the shares of Stock for which the Option is then exercisable in exchange for shares of Stock having an aggregate Market Value equal to the difference between the aggregate Market Value of the surrendered portion of the Option and the aggregate exercise price for the surrendered portion of the Option; (iv) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (v) by any combination thereof. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Stock, or such other representations as the Committee deems appropriate. No portion of the Option may be exercised during a period which the Committee designates in writing as a prohibited exercise period.

(c) All obligations of the Company under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or exercisability of the Option unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Option, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Transfer and Exercise. Except as otherwise provided in the Plan, the Option shall not be transferable, and neither the Option nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Only the Participant or its legal representatives may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the guardian or legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Option grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Option, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Stock underlying the Option unless the shares of Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") and the laws of the applicable state or other jurisdiction, or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act and the laws of the applicable state or other jurisdiction. Any stock issued upon exercise of the Option may bear one or more legends reflecting the foregoing restrictions or other restrictions imposed by the Plan or this Agreement.

(b) As a condition to receive any shares of Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. The grant of this Option shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Stock subject to the Option, until certificates for shares of Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. The rights and interests of the Participant under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the Option described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

RESTRICTED STOCK AWARD

This RESTRICTED STOCK AWARD AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Restricted Stock. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant an aggregate of _____ shares of Stock (the "Shares"). All Shares issued hereunder will be deemed issued to the Participant as fully paid and nonassessable shares. The Company shall pay any applicable stock transfer taxes imposed upon the issuance of the Shares to the Participant hereunder.

2. Vesting of Shares. Subject to the provisions of this Agreement and the Participant's continuous Service to the Company or its Affiliates, the Shares shall vest in accordance with the following schedule:

<u>Date</u>	<u>Number of Shares Vested</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

For purposes of this Agreement, the term "vest" shall mean, with respect to any Shares, that such Shares are no longer subject to forfeiture to the Company pursuant to Section 3 below. Shares that have not vested are deemed "Restricted Shares." If the Participant would become vested in a fraction of a Share, such Share shall not vest until the Participant becomes vested in the entire Share.

3. Termination of Service; Forfeiture of Shares. Vesting shall cease upon the date of termination of the Participant's Service for any reason, including death or Disability. Any unvested Restricted Shares held by the Participant at the time of such termination of Service shall immediately be forfeited and deemed reconveyed to the Company, and the Company shall thereafter be the legal and beneficial owner of the Restricted Shares and shall have all rights and interest in or related thereto without further action by the Participant.

4. Escrow of Stock; Rights as Stockholder.

(a) At the sole discretion of the Committee, and subject to the terms of this Section 4, the Shares may be issued in either (i) certificated form, or (ii) uncertificated form, with the Shares recorded in the name of the Participant in the books and records of the Company's transfer agent with appropriate notations to the extent that the Shares remain subject to the restrictions set forth in this Agreement.

(b) For purposes of facilitating the enforcement of the provisions of this Agreement, the Participant agrees, immediately upon receipt of any certificate(s) for the Restricted Shares, to deliver such certificate(s), together with an assignment separate from certificate, executed in blank by the Participant and the Participant's spouse (if required for transfer) with respect to each such stock certificate, to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Restricted Shares have not vested pursuant to the vesting schedule set forth in Section 2, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Agreement in accordance with the terms hereof.

(c) The Participant hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee) as escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Participant agrees that if the Restricted Shares are held electronically in a book entry system maintained by the Company's transfer agent or other third party, the terms and conditions of this Section 4 applicable to certificated Restricted Shares will apply with the same force and effect to such electronic method for holding the Restricted Shares. The Participant agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Upon the vesting of all Restricted Shares, the escrow holder will, without further order or instruction, transmit to the Participant the certificate evidencing such Shares, subject, however, to satisfaction of any withholding obligations provided in the Plan or this Agreement.

(d) Certificates representing Shares issued pursuant to this Agreement shall, until all restrictions on transfer imposed pursuant to this Agreement lapse or shall have been removed and new certificates are issued, bear the following legend (or such other similar or additional legends as shall be determined by the Committee):

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO FORFEITURE UNDER THE TERMS OF THAT CERTAIN RESTRICTED STOCK AWARD AGREEMENT BY AND BETWEEN DELTATHREE, INC. AND THE REGISTERED OWNER OF SUCH SHARES, AND SUCH SHARES MAY NOT BE, DIRECTLY OR INDIRECTLY, OFFERED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES, EXCEPT PURSUANT TO THE PROVISIONS OF SUCH AGREEMENT.”

(e) Except as otherwise provided herein and subject to the restrictions contained herein, the Participant shall have all the rights of a stockholder with respect to the Shares, including the right to vote the Shares and the right to receive any cash or stock dividends paid to or made with respect to the Shares.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or release of restrictions with respect to the Restricted Shares unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Shares, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Taxes.

(a) The Company will withhold a portion of the Shares that have an aggregate market value sufficient to pay the minimum federal, state and local income, employment and any other applicable taxes required to be withheld by the Company with respect to the Shares. No fractional Shares will be withheld or issued pursuant to the grant of the Shares; unless determined otherwise by the Company, any additional withholding necessary in lieu of such fractional shares will be effected by the Company through a deduction in the Participant’s paycheck or through direct payment by the Participant to the Company in the form of cash, check or other cash equivalent. In lieu of withholding any Shares the Company may, in its discretion, require the Participant to pay an amount necessary to pay the applicable taxes directly to the Company in the form of cash, check or other cash equivalent, and/or may withhold an amount necessary to pay the applicable taxes from the Participant’s paycheck. In the event the withholding requirements are not satisfied through the withholding of Shares (or, through the Participant’s paycheck or direct payment, as indicated above), no Restricted Shares will be granted to the Participant (or his or her estate) unless and until satisfactory arrangements (as determined by the Committee) have been made by the Participant with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company has the right to withhold without notice from salary or other amounts payable to the Participant cash in an amount sufficient to satisfy any tax withholding obligations that cannot be satisfied through the withholding of otherwise deliverable Shares. By accepting the Award, the Participant expressly consents to the withholding of Shares and to any cash or Share withholding as provided for in this Section 6. All income and other taxes related to the Shares are the sole responsibility of the Participant.

(b) If the Participant makes a timely election pursuant to Section 83(b) of the Internal Revenue Code or similar provision of state law (collectively, an “83(b) Election”), the Participant shall immediately pay the Company the amount necessary to satisfy any applicable United States federal, state, local or non-U.S. income and employment tax withholding obligations. If the Participant does not make a timely 83(b) Election, the Participant shall, as Restricted Shares shall vest or at the time withholding is otherwise required by any applicable law, pay the Company the amount necessary to satisfy any applicable United States federal, state, local or non-U.S. income and employment tax withholding obligations. In the event the Participant determines to make an 83(b) Election, the Participant hereby represents that he or she understands (i) the contents and requirements of the 83(b) Election, (ii) the application of Section 83(b) to the receipt of the Shares by the Participant pursuant to this Agreement, (iii) the nature of the election to be made by the Participant under Section 83(b), (iv) the effect and requirements of the 83(b) Election under relevant state and local tax laws, (v) that the 83(b) Election must be filed with the Internal Revenue Service within thirty (30) days following the date of this Agreement, and (vi) that the Participant must submit a copy of such election to the Company and with his or her federal tax return for the calendar year in which the date of this Agreement falls.

(c) This Agreement and the Award are intended to be exempt from the provisions of Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, as providing for the transfer of restricted property as described in Section 1.409A-1(b)(6) of the Department of Treasury regulations. Notwithstanding any provision of this Agreement to the contrary, in the event that the Committee determines that the Award may be subject to Section 409A of the Code, the Committee may adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and in order to avoid the application of penalty taxes under Section 409A of the Code.

7. Grant Subject to Plan Provisions. The grant of the Shares hereunder is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant of the Shares and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Agreement pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this grant, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant’s beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) Except as otherwise provided in the Plan, prior to the date that the Shares become vested pursuant to the vesting schedule set forth in Section 2, the Shares shall not be transferable, and neither the Shares nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Any attempt to transfer Shares in violation of this Section 8 will be null and void and will be disregarded.

(b) In order to ensure compliance with the restrictions on transfer set forth in this Agreement or the Plan, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred. The Participant understands and agrees that the Company shall cause legends reflecting the restrictions set forth in this Agreement to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or under the Securities Act or the laws of any applicable state or other jurisdiction.

(c) As a condition to receive the Shares, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of the Shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the Shares.

9. No Employment or Other Rights. The grant of the Shares shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. Assignment and Transfers. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

11. Effect on Other Benefits. The value of Shares granted hereunder shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

12. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

13. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

14. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the grant of the Shares described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

DELTATHREE, INC.

2009 STOCK INCENTIVE PLAN

RESTRICTED STOCK AWARD
102 CAPITAL GAINS TRACK GRANT
UNDER SECTION 102(B)(2) OF THE ISRAELI INCOME TAX ORDINANCE

This RESTRICTED STOCK AWARD AGREEMENT (the "Agreement"), dated as of _____ (the "Grant Date"), is delivered by deltathree, Inc. (the "Company") to _____ (the "Participant"). Capitalized terms used herein and not otherwise defined herein have the meaning given to them in the Plan (as defined below).

WHEREAS, the Company maintains the deltathree, Inc. 2009 Stock Incentive Plan including Appendix A – Israeli Participants thereto (the "Plan") for the benefit of its and its Affiliates' employees, directors, and consultants;

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties to this Agreement, intending to be legally bound, hereby agree as follows:

1. Grant of Restricted Stock. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants an aggregate of _____ shares of Stock (the "Shares") for the benefit of the Participant. The Shares will be registered in the name of [_____] (the "Trustee"), who will serve as the trustee pursuant to the Trust Agreement entered into between the Company and the Trustee (the "Trust Agreement"), to the extent required by law to qualify under Section 102 for the benefit of the Participant. Participant shall be required to comply with the ITO, the Rules, and the terms and conditions of the Trust Agreement. The Trustee will hold the Shares for the Required Holding Period, as set forth in Appendix A to the Plan. The Participant hereby undertakes to release the Trustee from any liability in respect of any action or decision duly taken by the Trustee (except for any such actions or decisions taken in gross negligence or willful misconduct) in relation to the Plan or any share of Stock granted to him thereunder. The Participant hereby confirms that he shall execute any and all documents which the Company or the Trustee may reasonably determine to be necessary in order to comply with the ITO and the Rules. All Shares issued hereunder will be deemed issued to the Participant as fully paid and nonassessable shares. The Company shall pay any applicable stock transfer taxes imposed upon the issuance of the Shares to the Participant hereunder.

2. Vesting of Shares. Subject to the provisions of this Agreement and the Participant's continuous Service to the Company or its Affiliates, the Shares shall vest in accordance with the following schedule:

<u>Date</u>	<u>Number of Shares Vested</u>
First anniversary of the Grant Date	25%
Second anniversary of the Grant Date	25%
Third anniversary of the Grant Date	25%
Fourth anniversary of the Grant Date	25%

For purposes of this Agreement, the term "vest" shall mean, with respect to any Shares, that such Shares are no longer subject to forfeiture to the Company pursuant to Section 3 below. Shares that have not vested are deemed "Restricted Shares." If the Participant would become vested in a fraction of a Share, such Share shall not vest until the Participant becomes vested in the entire Share.

3. Termination of Service; Forfeiture of Shares. Vesting shall cease upon the date of termination of the Participant's Service for any reason, including death or Disability. Any unvested Restricted Shares held by or on behalf of the Participant at the time of such termination of Service shall immediately be forfeited and deemed reconveyed to the Company, and the Company shall thereafter be the legal and beneficial owner of the Restricted Shares and shall have all rights and interest in or related thereto without further action by the Participant.

4. Escrow of Stock; Rights as Stockholder.

(a) At the sole discretion of the Committee, and subject to the terms of this Section 4, the Shares may be issued in either (i) certificated form, or (ii) uncertificated form, with the Shares recorded in the name of the Trustee for the benefit of the Participant in the books and records of the Company's transfer agent with appropriate notations to the extent that the Shares remain subject to the restrictions set forth in this Agreement.

(b) For purposes of facilitating the enforcement of the provisions of this Agreement, the Participant agrees, if so requested by the Company, immediately upon receipt of any certificate(s) for the Restricted Shares or deposit with the Trustee, to deliver such certificate(s), together with an assignment separate from certificate, executed in blank by the Participant and the Participant's spouse (if required for transfer) with respect to each such stock certificate, to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Restricted Shares have not vested pursuant to the vesting schedule set forth in Section 2, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Agreement in accordance with the terms hereof.

(c) The Participant hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee, including the Trustee) as escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Participant agrees that if the Restricted Shares are held electronically in a book entry system maintained by the Company's transfer agent or other third party, the terms and conditions of this Section 4 applicable to certificated Restricted Shares will apply with the same force and effect to such electronic method for holding the Restricted Shares. The Participant agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time.

(d) Certificates representing Shares issued pursuant to this Agreement shall, until all restrictions on transfer imposed pursuant to this Agreement lapse or shall have been removed and new certificates are issued, bear the following legend (or such other similar or additional legends as shall be determined by the Committee):

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO FORFEITURE UNDER THE TERMS OF THAT CERTAIN RESTRICTED STOCK AWARD AGREEMENT BY AND BETWEEN DELTATHREE, INC. AND THE REGISTERED OWNER OF SUCH SHARES, AND SUCH SHARES MAY NOT BE, DIRECTLY OR INDIRECTLY, OFFERED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES, EXCEPT PURSUANT TO THE PROVISIONS OF SUCH AGREEMENT.”

(e) Except as otherwise provided herein and subject to the restrictions contained herein, the Participant shall have all the rights of a stockholder with respect to the Shares, including the right to vote the Shares and the right to receive any cash or stock dividends paid to or made with respect to the Shares, subject to the terms of the Plan and the requirement of Section 102.

5. Change of Control or Other Transaction. In the event of a Transaction (as defined in the Plan), there will not be any acceleration of vesting or release of restrictions with respect to the Restricted Shares unless otherwise determined by the Committee. The provisions of the Plan applicable to a Transaction or a Change of Control (each as defined in the Plan) shall apply to the Shares, and, in the event of a Transaction or Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Taxes.

(a) The Company, its affiliates or the Trustee will withhold a portion of the Shares that have an aggregate market value sufficient to pay the minimum federal, state and local income, employment and any other applicable taxes required to be withheld with respect to the Shares. No fractional Shares will be withheld or issued pursuant to the grant of the Shares; unless determined otherwise by the Company, any additional withholding necessary in lieu of such fractional shares will be effected by the Company, its affiliates or the Trustee through a deduction in the Participant's paycheck or through direct payment by the Participant to the Company in the form of cash, check or other cash equivalent. In lieu of withholding any Shares the Company, its affiliates and/or the Trustee may, in its discretion, require the Participant to pay an amount necessary to pay the applicable taxes directly to the Company in the form of cash, check or other cash equivalent, and/or may withhold an amount necessary to pay the applicable taxes from the Participant's paycheck. In the event the withholding requirements are not satisfied through the withholding of Shares (or, through the Participant's paycheck or direct payment, as indicated above), no Restricted Shares will be granted or released to the Participant (or his or her estate) unless and until satisfactory arrangements (as determined by the Committee) have been made by the Participant with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company, its affiliates or the Trustee has the right to withhold without notice from salary or other amounts payable to the Participant cash in an amount sufficient to satisfy any tax withholding obligations that cannot be satisfied through the withholding of otherwise deliverable Shares. By accepting the Award, the Participant expressly consents to the withholding of Shares and to any cash or Share withholding as provided for in this Section 6. All income and other taxes related to the Shares are the sole responsibility of the Participant.

(b) To the extent applicable, this Agreement and the Award are intended to be exempt from the provisions of Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, as providing for the transfer of restricted property as described in Section 1.409A-1(b)(6) of the Department of Treasury regulations. Notwithstanding any provision of this Agreement to the contrary, in the event that the Committee determines that the Award may be subject to Section 409A of the Code, the Committee may adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and in order to avoid the application of penalty taxes under Section 409A of the Code.

7. Grant Subject to Plan Provisions. The grant of the Shares hereunder is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant of the Shares and this Agreement are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Agreement pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this grant, the Participant agrees to be bound by the terms of the Plan and this Agreement and that all decisions and determinations of the Committee with respect to the Agreement shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) Except as otherwise provided in the Plan, prior to the date that the Shares become vested pursuant to the vesting schedule set forth in Section 2 and subject to the restrictions and requirements of Section 102, the Shares shall not be transferable, and neither the Shares nor any interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Any attempt to transfer Shares in violation of this Section 8 will be null and void and will be disregarded.

(b) In order to ensure compliance with the restrictions on transfer set forth in this Agreement or the Plan, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred. The Participant understands and agrees that the Company shall cause legends reflecting the restrictions set forth in this Agreement to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or under the Securities Act or the laws of any applicable state or other jurisdiction.

(c) As a condition to receive the Shares, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of the Shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the Shares.

9. No Employment or Other Rights. The grant of the Shares shall not confer upon the Participant any right to be retained in the Service of the Company or any Affiliate and shall not interfere in any way with the right of the Company or the applicable Affiliate to terminate the Participant's Service at any time. The right of the Company and any applicable Affiliate to terminate at will the Participant's Service at any time for any reason is specifically reserved.

10. Assignment and Transfers. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to any Affiliate. This Agreement may be assigned by the Company without the Participant's consent.

11. Effect on Other Benefits. The value of Shares granted hereunder shall not be considered eligible earnings for purposes of any other plans maintained by the Company or any other Affiliate, and such value shall not be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

12. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

13. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Board, Attn: General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Company or the applicable Affiliate, or to such other address as the Participant may designate to the Company or the applicable Affiliate in writing. Any notice shall be delivered by hand, sent by facsimile or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

14. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officers to execute and attest this Agreement, and the Participant has executed this Agreement, effective as of the Grant Date.

DELTATHREE, INC.

By: _____
Name: _____
Title: _____

I hereby accept the grant of the Shares described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement, as well as Section 102 and the Rules promulgated in connection therewith, and the Trust Agreement. Furthermore, I agree that the Shares will be issued to and in the name of the Trustee to hold on my behalf, pursuant to the terms of the ITO, the Rules and the Trust Agreement. In addition, I confirm that I am familiar with the terms and provisions of Section 102, particularly the Capital Gains Track described in subsection (b)(2) thereof, and agree that I will not require the Trustee to release to me or to sell the Shares to a third party, during the Restricted Holding Period, unless permitted to do so by applicable law. I hereby further agree that all of the decisions and determinations of the Committee shall be final and binding.

Participant: _____
Date: _____

Exhibit 31.1

CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, Effi Baruch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of deltathree, Inc. (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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2009

By: /s/ Effi Baruch

Effi Baruch

Interim Chief Executive Officer and President, Senior Vice President of
Operations and Technology

Exhibit 31.2

CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Ziv Zviel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of deltathree, Inc. (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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 14, 2009

By: /s/ Ziv Zviel
Ziv Zviel
Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION

**Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of deltathree, Inc. (the “registrant”) does hereby certify, to such officer’s knowledge, that:

- (1) the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (the “Form 10-Q”) of the registrant fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: August 14, 2009

By: /s/ Effi Baruch
Effi Baruch, Interim Chief Executive Officer and President, Senior Vice
President of Operations and Technology

The foregoing certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION

**Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of deltathree, Inc. (the “registrant”) does hereby certify, to such officer’s knowledge, that:

- (1) the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (the “Form 10-Q”) of the registrant fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: August 14, 2009

By: /s/ Ziv Zviel
Ziv Zviel, Chief Financial Officer and Treasurer

The foregoing certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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