

BEACON EQUITY RESEARCH

Analyst: Victor Sula, PhD

Initial Report

MAY 19th, 2008



i2 Telecom International, Inc.

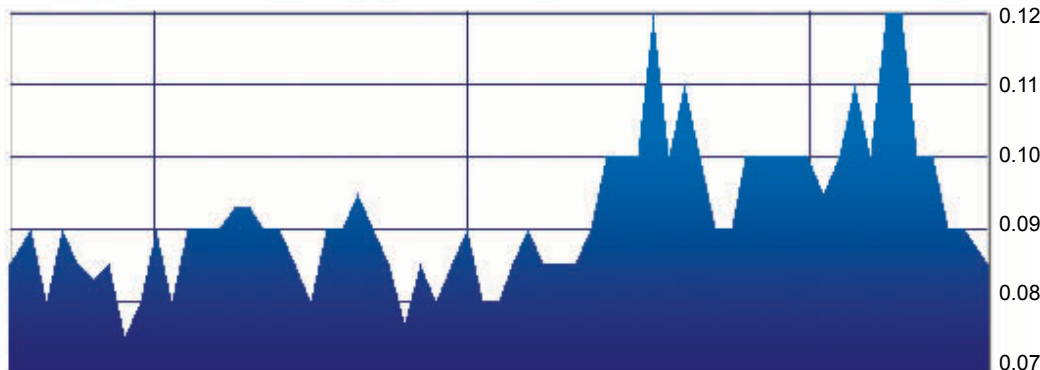
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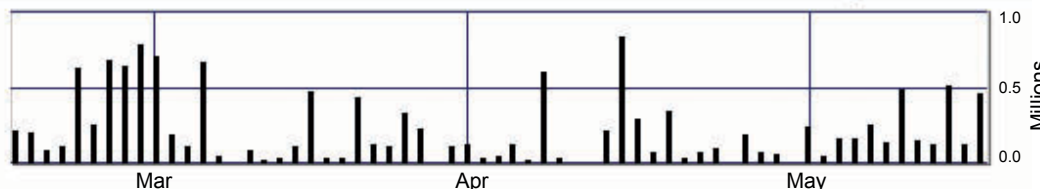
ITUI daily

05/16/08



volume

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Market Data

Symbol / Exchange	OTC BB: ITUI
Coverage Initiated	May 16th, 2008
Current Price	\$0.09
Rating	Speculative Buy
Price Target	\$0.28
Outstanding Shares	185.3 M
Market Cap	\$16.6M
52-Week Range	\$0.054 - \$0.19
Average 3M Volume	215,133

Company Overview

i2 Telecom International, Inc. (OTC BB: ITUI) provides telecommunications services incorporating Voice over Internet Protocol (VoIP) technology. The Company has developed Internet access devices based on its proprietary VoIP technology that enables residential and business phone systems (PBX) to complete calls over the Internet utilizing ITUI's global network and advanced routing technologies.

The Company's products include VoiceStick®, which allows users to make domestic and international calls via the Internet using headphones and direct dial phone numbers provided by the Company; and MyGlobalTalk™, an advanced mobile VoIP application that offers Internet telephony to cell phone users and is compatible with any underlying wireless carrier technology, handset manufacturer and wireless carrier voice/data plan. In addition, the Company provides Digital Portal communications and micro-gateway adapters for VoIP long-distance and other enhanced communication services.



The Company's VoiceStick® product was recognized with *Internet Telephony Magazine's* 2004 "Product of the Year" award and as "Best of Show" at the 2005 Internet telephony products industry event in Miami. ITUI also received the 2007 "Product of the Year" award for its MyGlobalTalk™ product, which was also selected as "Best of Show" at the 2008 industry conference. In addition, i2Telecom was voted "Internet Service Provider of the Year" in 2005. Finally, *Unified Communications Magazine* recognized MyGlobalTalk™ as "Product of the Year" in 2007.

Investment Highlights

Business model leverages patented VoIP technology

ITUI is leveraging its patented technology to provide Internet access solutions that enable customers to complete calls over the Internet, paying only for the last leg of the connection. The Company's VoIP Service Access Module is simple to install and is one of the world's easiest-to-use Internet phone services, allowing any computer or cell phone to make and receive IP calls.

The Company is employing a service-driven model, recognizing that the interface is enabling billions of small electronic devices to operate and link networks to communicate and exchange data. ITUI has developed a Session Initiation Protocol, (SIP) based architecture to ensure content delivery over a growing number of devices and disparate systems.

Award-winning product offerings

ITUI's patented VoiceStick® product is a plug-and-play, portable, key chain-sized device that inserts directly into the USB port of any desktop or notebook computer, including PDAs. The device allows users to initiate VoIP calls anywhere in the world directly from their computer at costs a fraction of typical carrier long-distance rates.

The Company's newest product offering, MyGlobalTalk,™ is a mobile VoIP application that leverages its VoiceStick® technology and extends Internet telephony to cell phone users. It is compatible with any wireless carrier technology, handset manufacturer, or wireless carrier voice/data plan. After MyGlobalTalk™ is installed, cell phone users can call anywhere in the world at for a small fraction of typical carrier long-distance rates.

Internet Telephony Magazine has recognized both VoiceStick® and MyGlobalTalk™ as "Products of the Year", while the Technology Marketing Corporation's Internet Telephony Conference selected ITUI's products as "Best of Show" in 2005 and 2008. In addition, *Unified Communications Magazine* recognized MyGlobalTalk™ as "Product of the Year" in 2007.

Strong intellectual property portfolio

The Company was recently awarded US Patent No. 7,336,654 covering its VoIP Service Access Module (VSAM) or VoiceStick® technology. The patent covers 30 claims and expires in 2025. ITUI has retained the services of Vinson & Elkins, one of the world's leading intellectual property law firms, to investigate possible patent infringements relating to its proprietary VoiceStick® technology.

In addition, the Company has patents pending for a Telephony Protocol Engine involving Audio Compression Enhancement, Packet Transmission over Broadband, Methods of Minding Small Appliances to Networks

Multiple revenue streams

During 2007, the Company recorded 15% revenue growth from sales of VoiceStick® and other integrated access devices, VoiceStick® activation charges, recurring monthly subscriptions and call minute termination fees. The Company plans to utilize licensing agreements to finance the growth of its VoIP Service Access Module segment. To date, VoiceStick®-related technology products are available from approximately 60 companies. At year-end 2007, the Company had approximately 12,000 VoiceStick® accounts, and the Company anticipates growth in its customer base to 100,000 subscribers by year-end 2008. This would still represent less than 1/10th of 1% penetration of the potential market.

Going forward, the introduction of MyGlobalTalk™ in early 2008 will significantly expand the Company's visibility and growth potential. The development of a mobile Internet gateway product for cell phones provides ITUI with access to a 2.6 billion mobile phone user market.

The Company has additional technologies in development that further enhance its product line and licensing opportunities. Management anticipates that new products will drive annualized revenues to \$25 million by year-end 2009.

\$16 billion VoIP market may triple by 2010

Technology advances and increasing Internet penetration have facilitated the rapid deployment of IP services for voice, video and data. VoIP telephone services have already emerged as a mainstream consumer service. The number of VoIP subscribers jumped 32% in 2007 to 50 million from 38 million in 2006. The worldwide VoIP subscriber base is projected to reach 152 million by 2011. Worldwide VoIP service revenues rose 66% to \$15.8 billion in 2006 and are on-track to triple by 2010. A key factor driving VoIP market growth involves the growing number of broadband connections providing high-speed Internet access.

Proven management team

Paul Arena, the Company's CEO and founder, was formerly CEO and founder of Cereus Technology Partners, Inc., a publicly traded technology company (NASDAQ: CEUS) with a \$350+ million market capitalization. **Chief Strategic Officer Mark Hewitt** has over 26 years of experience in communications and entertainment technologies and received numerous "Product of the Year" awards during his tenure with Motorola Communications. At Motorola, he worked on the design of the trunk radio system (core to the Nextel system), the ARDIS Network (predecessor to the RIM Blackberry system), and finally the IRIDIUM system in the areas of ground segment support and network design. **Chief Marketing Officer Larry Stessel** devised marketing strategies for a number of prominent recording artists, including Michael Jackson, Babyface, Gloria Estefan, Celine Dion, The Charlie Daniels Band, Pearl Jam, Stevie Ray Vaughan and Luther Vandross during his tenure with Sony Music. He also served as President of Alliance Entertainment's Independent National Distribution.



ITUI Business Model

ITUI provides low-cost telecommunications services employing next-generation VoIP technology. The Company has developed Internet access devices based on its patented technology that enable residential or business (PBX) phone systems to complete calls via the Internet, paying only for the last leg of the connection. The devices provide access to ITUI's global network and advanced routing technologies and significantly reduce long-distance calling costs.

The Company's revenue model consists of revenues generated from sales of its VoIP Service Access Module or VoiceStick® and other integrated access devices, recurring monthly subscriptions and call minute termination fees. The Company believes its patented VoIP technology provides competitive advantages involving service quality, cost, features and ease-of-use.

ITUI's technology platform incorporates Session Initiation Protocol (SIP) standards and offers end-users the following advantages:

- Carrier-grade quality of service;
- Low cost, long-distance and international calling;
- Broadband technology and access via laptop or PC;
- Plug-and-play technology compatible with conventional phones that does not require professional installation; and
- Unlimited and "Pay as You" global calling among VoiceStick® and MyGlobalTalk™ users.

The Company plans to target VoIP telephony applications as its primary line of business. However, ITUI is also exploring other opportunities within the telecommunication sector and may pursue strategic acquisitions that support more rapid deployment of its operations, both domestically and internationally, and enhance its product offerings.

Business strategy

The Company's goal is to become a leading, low-cost provider of domestic/international/long distance communications services to enterprise customers, small-to-mid-sized companies, small office/home office users and individuals. The Company's primary target audience includes individuals and employers needing a second phone line, international callers and broadband subscribers. ITUI is focusing on international markets with an emphasis on Asia Pacific, Central and South America and Europe, because these markets have higher cost, long distance phone service and ITUI's products may offer significant cost savings to such end-users.

The key elements of ITUI business and growth strategy are:

Focus on markets where convenience and cost are key concerns

The Company's VoiceStick® and MyGlobalTalk™ products address segments of the VoIP market where portability, ease-of-use, and true plug-n-play capabilities are virtually non-existent. VoiceStick® allows anyone with a laptop/desktop computer and broadband access to turn their computer into a soft phone with true plug-n-play capabilities, while MyGlobalTalk™ converts cell phones into dual-mode WiFi handsets with mobile VoIP capability.

Utilization of multi-tiered distribution channels

The Company uses various distribution channels to maximize its reach in international markets. ITUI has established relationships with enterprise customers, telephone companies, major OEMs, cable companies, Internet Service Providers and distributors that can help the Company cost-effectively build brand awareness and distribution across sales channels and demographic segments.

Seek OEM licensing opportunities

The Company is seeking additional licensing agreements with large communications equipment suppliers that would not only pay licensing fees, but also market the Company's network services to their own customer bases.

Control introduction of new products and services

ITUI is developing new products that leverage its technology leadership and enhance its product portfolio. Because it owns a proprietary, leading edge VoIP technology, ITUI is well-positioned to bring innovative new products to market quickly and cost-effectively.

Outsource production and service delivery

The Company plans to minimize overhead expense and capital expenditures by outsourcing production to best-of-breed strategic partners.

In addition, ITUI has developed two websites, www.voicestick.com and www.myglobaltalk.com, which also function as e-commerce sites by supporting provisioning, account set-up, the addition of pre-paid minutes to accounts, account status and account inquiries.

IP portfolio

ITUI has become known mainly as a product innovator of high value technologies in the space of communications and broadband. The Company was first established as a market and technology leader with the use of VoIP to provide consumers with an easy method of displacing legacy and expensive technology. This has led to numerous product awards and industry recognition of ITUI as an innovator with sweeping product and consumer acceptance for "ease of use" and practical applications

The Company was recently awarded US Patent No. 7,336,654 covering its VoIP Service Access Module or VoiceStick® technology. The patent protection on the VoiceStick® encompasses 30 claims and will run until 2025. Additionally, i2Telecom is seeking patent protection in several other countries throughout the world.

In addition, the Company has patents pending for a Telephony Protocol Engine involving Audio Compression Enhancement, Packet Transmission over Broadband, Methods of Minding Small Appliances to Networks and various methods of originating VoIP communications. In total, ITUI has nine patents pending, including over 100 claims, and four registered trademarks which the Company believes offer substantial future IP value in the areas of cellular and PSTN bridging, as well as further VoiceStick® enhancements.

ITUI has retained the services of Vinson & Elkins, one of the world's leading intellectual property law firms, to investigate possible patent infringements relating to its proprietary VoiceStick® technology.

Vinson & Elkins has already undertaken efforts to identify possible violations of ITUI's patents and there is a high likelihood that ITUI will recover a significant sum on its VSAM technology.

Marketing Expertise

The Company has entered into a marketing agreement with Virenta, LLC, (“Virenta”) to market MyGlobalTalk™ through its strategic partner network. Virenta’s principals have extensive relationships in the cellular industry, the IT industry and in online marketing communities. Virenta is comprised of a group of marketing veterans led by Andy Berman, formerly head of strategic alliances and business development for Radio Shack and who recently joined ITUI’s board of directors. The list of companies benefiting from these marketing efforts includes Radio Shack and Cisco, among others.

Product Offerings

The Company’s VoiceStick® product combines versatility and ease-of-use, while allowing any computer or cell phone to place and receive VoIP calls. VoiceStick® is a plug-and-play, portable key chain-sized device that inserts directly into the USB port of a desktop or notebook computer, including PDAs. The softphone application is downloaded directly from the Company’s web site, and a dial pad display provides access to VoIP technology for making calls anywhere in the world at a small fraction of conventional carrier long distance rates. In addition to global communication capability, VoiceStick® allows users to store massive amounts of personal data, music, pictures, presentations, etc. USB drives with embedded VoiceStick®-related technology are available from approximately 60 companies.

Unlike mobile phones, VoIP call rates remain the same regardless of the user’s location. The VoiceStick® system charges rates as if the call originated in the US. For example, a call from Hong Kong to London costs the same as a call from New York to London.

VoiceStick® allows users to:

- Make unlimited calls to subscribers anywhere in the world using a laptop computer and a broadband connection;
- Make local and long distance calls to conventional landlines using the Company’s low-cost routing network ; and
- Receive a direct inward dial (DID) phone number.

Internet Telephony Magazine recognized VoiceStick® as “Product of the Year” in 2004, and i2Telecom was voted “Internet Service Provider of the Year” in 2005.

ITUI plans to introduce more new services and products and is integrating IM chat, video and Internet television, among other applications, into its communications portal. The Company’s goal is to offer users complete communications mobility from the home or office.

Product description



Free VoiceStick® SoftPhone Download

VoiceStick® software is available from ITUI’s corporate website. The software, installed on a user’s laptop or desktop computer, allows calls to be made anywhere in the world. It is simple to install and easy to use.

VoiceStick® and Plantronics® Headset



64MB Memory Stick with the VoiceStick® SoftPhone preloaded. The VoiceStick® is a USB device that allows users to make calls anywhere in the world via a broadband Internet connection. The product includes a Plantronics earpiece and microphone.

Mobile users can carry their phone numbers with them when they travel. The memory stick can also be used to save data files.

Grandstream HandyTone ATA-286



The Grandstream HandyTone ATA-286 is an award-winning, next-generation VoIP analog telephone adaptor based on industry open standards. Grandstream HandyTone ATA-286 features market-leading sound quality, compact size, and rich functionalities.

Plantronics® M60 Headset



Plantronics M60 Headset is a discreet headset designed with an ear hook for an over-the-ear style with a short boom microphone to limit background noise and give good voice clarity. The M60 offers good stability and a weightless, comfortable fit.

MyGlobalTalk™

The Company's newest product, MyGlobalTalk™ targets the mobile handset (cell phone) market. It uses VoiceStick® technology to provide Internet telephony capabilities to cell phone users. The device is compatible with any wireless carrier technology, handset manufacturer, or wireless carrier voice/data plan. With MyGlobalTalk™, cell phone customers can use mobile VoIP technology to call anywhere in the world at a small fraction of conventional long-distance rates. MyGlobalTalk™ users don't need to wait for dual-mode WiFi phones to become available, because ITUI's product provides the same benefits at a fraction of the cost using the customer's existing mobile handset.

ITUI plans to roll out MyGlobalTalk™ in several phases, beginning with its introduction to US and UK customers with SmartPhone handsets utilizing Windows Mobile® 5.0/6.0 operating system in the first quarter of 2008. Rollouts in additional markets later this year will extend the geographic penetration of MyGlobalTalk™ and support Blackberry, iPhone and Symbian-enabled handsets.

MyGlobalTalk™ Mobile is available to users with a Windows Mobile® 5.0/6.0 Smartphone or Pocket PC. MyGlobalTalk™ Bridge is offered to other users and enables VoIP access from other types of phones.

MyGlobalTalk™ was voted "Best in Show" at Technology Marketing Corporation's Internet Telephony Conference and Expo East 2008. This conference was held at the Miami Beach Convention Center in January and attracted over 7,100 attendees.

Industry Outlook

The VoIP market has grown dramatically since the early days of calls made from personal computers. VoIP is an alternative communications technology that can circumvent traditional landlines by translating voice into data packets, transmitting the packets over Internet networks and reconvertng them into voice at the destination. Unlike traditional landline networks, VoIP doesn't use dedicated circuits for each telephone call. Instead, the same VoIP network can be shared by multiple users simultaneously. These systems are more efficient since the data network is not restricted by the one-call, one-line limitations of traditional telephone networks. This improved network efficiency creates cost savings that can be passed along to consumers as lower phone rates.

Internet usage

Continued growth in the number of Internet users is expanding the customer base for IP-based services. The number of Internet users already exceeds one billion worldwide. As of September 30, 2007, there were 1.2 billion Internet users, according to Internet World Stats.

Exhibit 1: Internet Usage

	Population, Mn (2007 Est.)	% Pop. of World	Internet Users, Latest Data, Mn	Penetration (% Population)	% Usage of World	User Growth (2000-2007)
Europe	809.9	12.3 %	337.9	41.7 %	27.2 %	221.5 %
North America	334.5	5.1 %	232.6	69.5 %	19.8 %	115.2 %
World's total	6,574.6	100.0 %	1,244.4	18.9 %	100.0 %	244.7

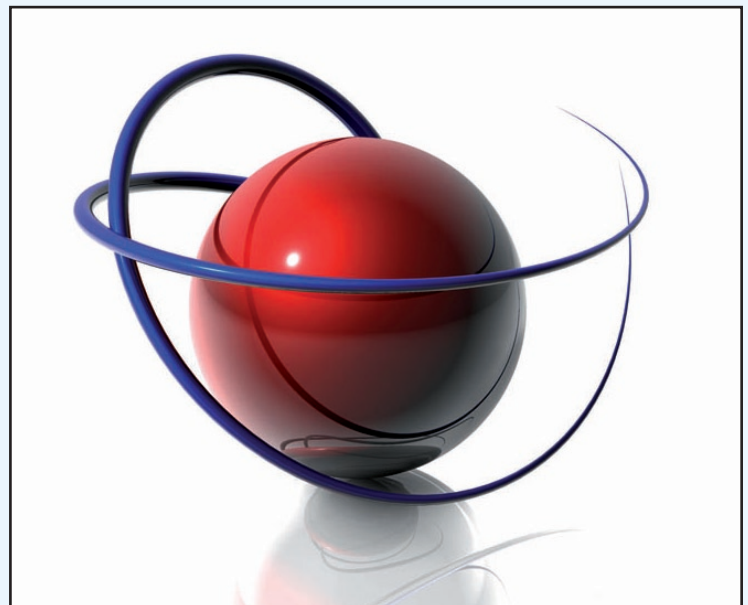
Source: www.internetworldstats.com/stats.htm

The number of Internet users worldwide is expected to reach two billion by 2011.

Broadband usage

Internet telephony is essentially a broadband phenomenon. Increasing broadband penetration rates facilitate the rapid deployment of voice, video and data IP services. Broadband is often called high-speed Internet because of its high data transmission rates. The number of broadband connections worldwide is rising steadily as more users tap high speed technologies for peer-to-peer (P2P) file sharing systems, music and games downloading, video-on-demand and conference calls.

At the end of the first quarter of 2007, there were an estimated 300 million broadband subscribers worldwide. Over the past year, the number of broadband subscribers in the OECD countries has increased 24% to 221 million¹ (June 2007). For every 100 OECD residents, 18.8 have broadband subscriptions, up from 15.1 one year ago. The strongest per capita subscriber



1 http://cordis.europa.eu/search/index.cfm?fuseaction=news.simplifieddocument&N_RCIN=28639

growth rates were in Ireland, Germany, Sweden, Australia, Norway, Denmark and Luxembourg. Each of these countries added more than five subscribers per 100 residents in 2007.

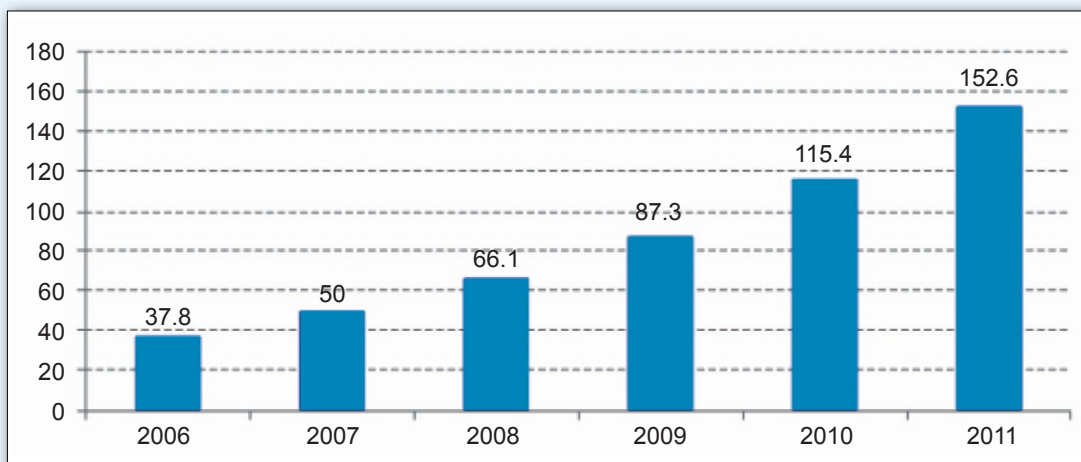
The Telecommunications Industry Association (TIA) estimates the total US broadband subscriber base will reach 57 million in 2008, up from 32.5 million in 2004. According to TIA, the US had fewer than five million broadband subscribers in 2001. The number of US subscribers grew 35.4% in 2004 to 32.5 million. The breakdown by broadband technology was as follows: cable modem (17.0 million), DSL (12.6 million), fixed wireless (2.2 million), fiber-to-the-home (0.2 million), satellite (0.4 million), mobile wireless (3G) (0.1 million), and broadband-over-power line (less than 50,000).

VoIP market

At the end of 2004, only 1.8 million VoIP lines were in service across Europe, equivalent to just over 1.0% of households. By mid-year 2007, approximately 22 million European households had VoIP telephone service. The number of US VoIP subscribers has risen from 6.5 million in mid-2006 to 11.8 million in mid-2007—equivalent to 10% of all US households. According to eMarketer predictions, the number of US VoIP users will climb to 32.6 million in 2010, equal to nearly 40% of all broadband households².

Worldwide VoIP service revenues jumped 66% in 2006 to \$15.8 billion after more than doubling in 2005, and are

Exhibit 2: Worldwide VoIP subscribers (in millions)



Source: web20.telecomtv.com/docs/e9e52ba6-695b-4578-b169-6b4472f71297/The%20Race%20for%20Revenue.pdf

expected to triple by 2010, according to Infonetics Research³. About 71% of worldwide VoIP service revenues came from residential/SOHO customers and 29% from business customers in 2006. By 2011, In-Stat predicts the worldwide consumer VoIP market will reach \$44 billion.

Across Europe, revenues from VoIP services are growing at a comparable pace. Annual revenues from consumer VoIP services approximated €583 million⁴ in 2005 and €1.5 billion in 2006. Given the current growth trend, VoIP revenues are forecast to top €2.8 billion in 2007. Western European VoIP service providers are expected to generate revenues exceeding €5.4 billion by 2011.

SoftBank is the world's largest VoIP service provider with an 18% market share, followed by NTT, Vonage,

2 www.researchandmarkets.com/reports/c35746

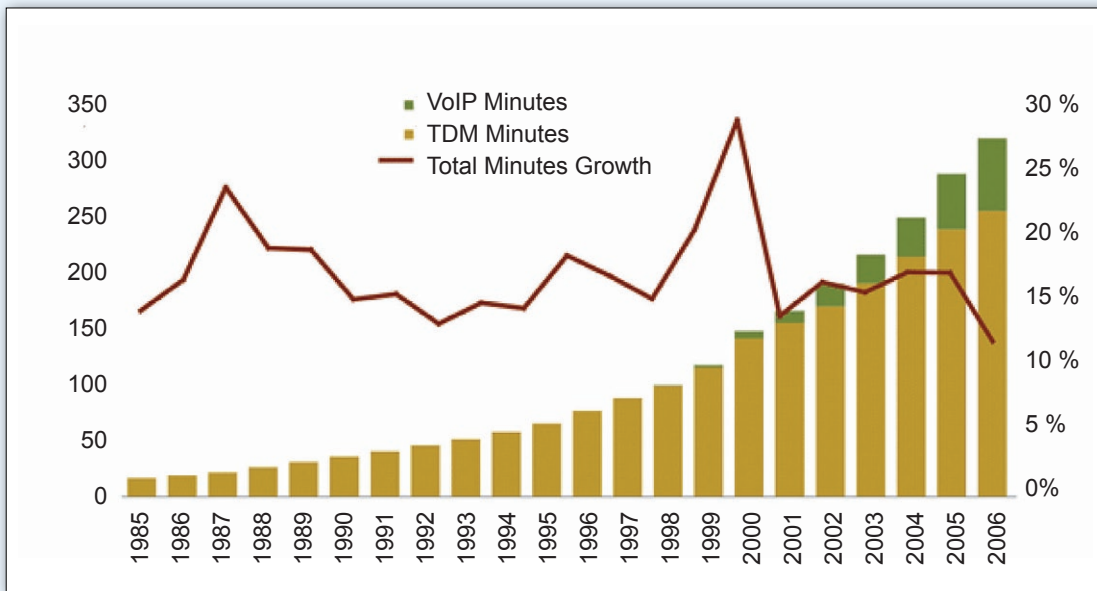
3 www.voipmonitor.net/2007/08/09/VoIP+Service+Revenue+Hits+158B+In+2006.aspx

4 www.telegeography.com/products/euro_voip/samples/Executive_Summary.pdf

France Télécom, and Time Warner Cable.

Another important market for VoIP services involves international calls. VoIP offers an affordable alternative to the high prices charged by Public Switched Telephone Network (PSTN) companies. Based on TeleGeography's estimates, international VoIP traffic exceeded 50 billion minutes and represented 17% of the global market in 2006, compared with 31 billion minutes and 13.7% of the market in 2004. VoIP minutes will continue to drive traffic away from traditional PSTNs and into IP core backbones, requiring service providers to handle multiple types of traffic as VoIP services and applications continue to proliferate.

Exhibit 3: Worldwide traffic, billions of minutes



Source: <http://www.telegeography.com/wordpress/?m=200712>

Mobile VoIP

According to an Analysys study, Mobile VoIP services represent an increasing share of both the VoIP and wireless communication markets. There are more than 2.6 billion mobile phone users worldwide, and their numbers are growing at double-digit rates. Wireless VoIP networks could carry as much as 28% of total fixed and mobile voice minutes in the United States and 23% in Western Europe by 2015. Analysys predicts that revenues from IP voice services delivered over cell phone networks will surpass fixed-line VoIP revenues by 2012, generating sales of \$18.6 billion in the US and \$7.3 billion in Western Europe. The opportunity for VoIP on dual-mode mobile phones will increase the number of these units from 0.9 million in 2006 to 22 million in 2011.



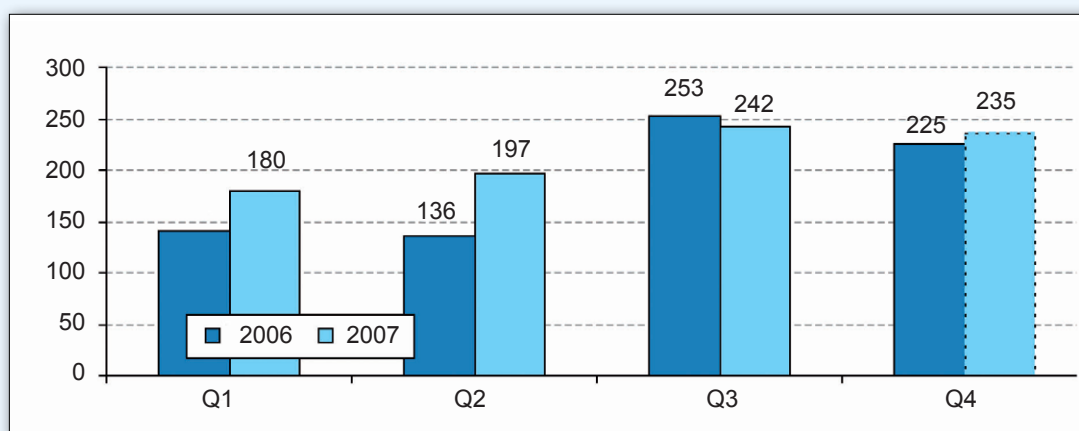
Financial Analysis

Revenues

The Company generates revenues from sales of proprietary products based on VoiceStick® technology and other integrated access devices, recurring monthly subscriptions fees and call minute termination charges.

ITUI's revenues rose 15% in 2007 to \$865,151 from \$754,939 in 2006. Revenue growth reflects the Company's transition from a product-driven business model to a service model with recurring revenues, partially offset by downtime for a system upgrade in the third quarter.

Exhibit 4: Quarterly revenues, \$ thousands



Source: SEC Filings, Management outlook

Income statement

The Company recorded lower gross margins in 2007 as a result of its change to a service-driven business model and the write-off of obsolete inventory. General and administrative expenses rose 38% in the first nine months of 2007 due to higher stock-based executive compensation and expenses incurred as part of management's ongoing efforts to restructure various debt instruments.

Exhibit 5: Incomes statement, \$ thousands

	2006	2007	% Chg	1Q 2007	1Q 2008	% Chg
Revenue	755	865	15%	180	157	-13%
Cost of Revenue	811	1,007	247%	115	182	58%
Gross profit	(56)	(142)	158%	65	(25)	n/m
General and Administrative Expenses	5,306	7,338	38%	2,139	1,052	-51%
Operating loss	(5,362)	(7,480)	40%	(2,074)	(1,077)	-48%
Other income	942	40		(41)	(121)	
Net loss	(9,089)	(5,800)	57%	(2,114)	(1,197)	-43%
Dividends on Preferred Stock	(366)	(325)		(130)	(6)	
Net Loss to Common Shareholders	(6,166)	(9,414)	53%	(2,245)	(1,204)	-46%
EPS, \$	(0.11)	(0.07)	57%	(0.03)	(0.01)	-67%

Source: SEC Filings

Despite higher revenues, ITUI reported a \$9.1 million operating loss from continued operations in 2007, up from a \$5.8 million loss in the prior year because of higher SG&A expense and increased interest expense resulting from the Company's delay in registering shares issued in connection with the conversion of notes to common stock.

First quarter 2008 results

Revenues declined to \$157,456 in the first quarter of 2008 from \$180,113 in the prior year's first quarter because of the Company's refocus on new product offerings which are being released in the market believed to have greater revenue potential.

Net losses were substantially lower at approximately \$1.2 million in the first quarter of 2008 versus approximately \$2.1 million in the first quarter of 2007 because of reduced bond amortization and financing costs, offset by higher marketing related costs.

Liquidity

At March 31, 2008, the Company had a working capital deficit of approximately \$7.0 million, negative operating cash flows, and an accumulated deficit of \$38.5 million. ITUI's main sources of cash from operations are sales of VoiceStick® products, VoiceStick® activation charges and pre-paid charges, receivables collected from companies who sell products incorporating the Company's technology, revenues for carrying long distance calls and monthly service fees. Internal cash flow is insufficient to fund ongoing operations, so ITUI is actively pursuing outside financing.

During 2007, ITUI used net cash of approximately \$3.9 million in operating activities, Net cash provided by financing activities was approximately \$3.1 million and was funded with proceeds of \$3.4 million from issuing convertible bonds and notes payable. The Company estimates it must raise an additional \$8 million over the next 12 months to fund the rollout of new products and refinance its existing debt.

Exhibit 6: Balance sheet, \$ thousands

	2006	2007
Current Assets, including	1,305	459
<i>Cash And Cash Equivalents</i>	60	0
Property Plant and Equipment	764	433
Intangible Assets	3,350	3,016
Deposits	28	38
Total Assets	5,447	3,946
Current Liabilities, including	9,044	6,529
<i>Convertible Bonds</i>	100	2,796
<i>Current Notes Payable</i>	2,587	3,109
Stockholders' Equity, including	(3,597)	(2,583)
<i>Preferred Stock</i>	4,470	800
<i>Common Stock</i>	17,175	29,684
<i>Retained Earnings</i>	(27,891)	(37,305)

Source: SEC Filings

On March 25, 2008, ITUI announced a financing with an accredited investor consisting of \$1,000,000 of 12% Non-Negotiable Secured Promissory Notes and 5-year warrants to purchase an aggregate ten million shares of the Company's common stock at \$0.10 per share. The notes mature 60 days after March 25, 2008. The notes are secured by all of the Company's assets but are senior to \$2,025,000 of secured debt and pari-passu with \$1,250,000 of senior secured debt.

At the end of the first quarter of 2008, the Company had 159 million outstanding warrants and options, up from 111 million at year-end 2007.

Valuation

Outlook

At year-end 2007, ITUI had approximately 5,000 VoiceStick® accounts. The Company anticipates 100,000 subscribers by year-end 2008, which represents less than 1% penetration of the potential 12.5 million user market.

Going forward, the 2008 introduction of the MyGlobalTalk™ product line should significantly expand the Company's visibility and revenue opportunities. The development of mobile Internet gateways for cell phones opens up a 2.6 billion user market for ITUI.

The Company has additional products in development that will further enhance its product offerings and add new revenue streams.

Considering these new products and emerging opportunities in the mobile VoIP market, we expect ITUI to increase revenues to \$5 million in 2008 and \$25 million in 2009.

Exhibit 7: Revenue and earnings outlook, \$ thousands

	2005	2006	2007	2008E	2009E
Revenue:	485	755	865	5,000	25,000
Gross Profit:	-746	-56	-142	1,250	5,000
Operating Income:	-7,963	-5,362	-7,480	-1,250	2,500

Source: Analyst estimates

In addition, we expect the Company to report significant inflows from patent infringements on its VoIP Service Access Module technology, which is widely used throughout the market today.

Peer comparison

We based our peer analysis on publicly-traded telecommunication companies with significant interests in VoIP and cellular VoIP services. The peer companies trade at a median EV/S multiple of 1.02 x sales. However, the early-stage companies trade at higher multiples due to their technology potential. We believe ITUI should trade at the high end of the peer group range due to its proprietary technology, new mobile communications products, and superior growth prospects.

Exhibit 8: Peer comparison

Company Name 5/16/2008	Ticker symbol	Price per Share, \$	Market Cap. \$ Mn	Enterprise value, \$ Mn	EV/S	
					2008	2009
iBasis Inc	IBAS	3.16	237	NA	NA	NA
Vonage Holdings Corporation	VG	1.83	285	407	0.49	0.28
8x8 Inc.	EGHT	1.14	71	56	0.84	0.69
Level 3 Communications Inc.	LVLT	3.55	5,500	11,000	2.64	2.08
General Communication Inc.	GNCMA	6.90	367	899	1.73	1.46
Alaska Communications Systems Group	ALSK	11.34	487	897	2.35	2.31
UCN Inc.	UCNN	2.64	94	88.5	1.12	1.02
Paid, Inc.	PAYD	0.26	61	61.0	18.0	15.3
Median					1.73	1.02

Source: Yahoo, Analyst estimates

Multiplying our 2009 revenue forecast of \$25 million by a 2.00x EV/Sales multiple, we derive a \$50 million enterprise value target for ITUI. Excluding the value of debt of \$7 million, we derive a \$57 million market capitalization target. There are also potential proceeds from available warrants totaling \$19 million (158.9 million warrants outstanding exercisable at \$0.12/share),

In addition to the value of ongoing operations, we believe the Company can benefit from significant inflows from patent disputes with companies that are utilizing ITUI's technology. Over the past year, there were several important patent infringement lawsuits related to VoIP technology, which make us confident that ITUI has the potential to gain similar advantages.

For example, AT&T alleged that Vonage wilfully infringed on an AT&T patent related to telephone systems that allow people to make VoIP calls using standard telephone devices. As a result, Vonage agreed late last year to settle the patent infringement lawsuit for \$39 million. Vonage is also to pay \$80 million to Sprint to settle an infringement claim involving Voice over Packet (VOP) patents held by Sprint. In addition to the Sprint deal, Vonage has settled patent disputes with Verizon for \$120 million, Nortel Networks through cross-licensing of several patents and Klausner Technologies, a privately held company that specialises in voice-messaging technology, for an undisclosed amount.

Assuming a 50% probability that ITUI can win awards of \$50 million from patent infringement settlements and/or licensing royalties over the next two years and discounting these cash flows at a 15% weighted average cost of capital, we derive a value of patent infringement settlements of \$22 million.

Overall, we value ITUI at \$98 million, representing the sum of core operations, IP settlement awards and proceeds from the outstanding warrants and options. Dividing this amount by 344 million fully diluted shares outstanding (185 million shares of common stock + 159 million warrants/options outstanding), we derive a \$0.28 price target.

As a result, we are initiating coverage of i2 Telecom International, Inc. with a Speculative Buy rating and a \$0.28 price target. However, we strongly advise investors to consider the risk factors mentioned below since the Company faces many challenges in achieving its revenue growth goals.

Risks

Strong competition

Technology advances and Internet penetration are fueling increased competition in the VoIP market. ITUI faces competition from several much larger providers and numerous mid-sized and smaller providers. Service providers compete based on price and service offerings. Many of ITUI's competitors have larger research and development efforts and marketing budgets and greater access to capital.

Declining telecommunications prices

ITUI's prices for its services are lower than most of its competitors. However, prices for domestic and international telecommunications services have declined considerably in recent years due to increased competition for market share and the implementation of new high-end technologies. The Company may be forced to reduce its prices to remain competitive, resulting in lower-than-anticipated revenue and subscriber growth.

Need for additional capital

The Company will need to raise an additional \$8 million in capital to fund its 2008 business plan, product development and patenting program and geographical expansion. Of this, approximately \$4.5 million is needed to retire short-term debt.



Management

Paul R. Arena,
*Chairman and Chief
Executive Officer*

Paul Arena has served as Chief Executive Officer, Chairman of the Board and Secretary of the Company since February 2004. He founded i2 Telecom and has served as Chairman and CEO since the Company's inception in February 2002. From April 2000 to the present, Mr. Arena served as Chairman and CEO of AIM Group, Inc., a holding company specializing in materials for the wire and cable industry. In July 1994, Mr. Arena founded and became Chairman and CEO of Cereus Technology Partners, Inc. (NASDAQ: CEUS). In 1998, Mr. Arena began implementing his vision of delivering a client information technology solution specifically tailored to the needs of middle-market companies with sales of \$50 to \$500 million. He acquired several ERP companies and integrated an Internet Service Provider to deliver this product offering. This business later grew to become one of the largest Application Service Providers in the Southeastern US.

Mr. Arena has participated in successful financings valued at over \$2 billion. These technology ventures included: cable television; conversion of black-and-white movie films into color; mercury detection devices for drilling rigs; ATM debit cards; color video telephones; color fax transmissions; and various types of manufacturing and commercial real estate investments in hotels, shopping centers and multi-family housing projects.

Mark Hewitt,
Chief Strategic Officer

Mr. Hewitt was appointed Chief Strategic Officer in October 2007 and has been a member of the Company's advisory board since December 2005. He is a partner with EcoSystem Partners and Nextbend. Mr. Hewitt has over 26 years experience in the communications and entertainment sectors.

He began his career in Alaska with the creation of a paging network later acquired by Craig McCaw. He was then elected Chairman of the Public Utilities Board overseeing the rebuilding of telephone, electric, water, sewer, and steam/hot water systems. He later joined Motorola Communications, where he first worked on the design of the trunk radio system (core to the Nextel system), the ARDIS Network (core to the Blackberry system), and finally the IRIDIUM system in the areas of ground segment support and network design. He later joined Sterling Cellular where he directed overall program management, engineering, site selection, market development and regulatory compliance.

Later, Mr. Hewitt joined Frontier Communications as Sr. Director, Engineering and Product Development. Frontier was later acquired by Global Crossing. Mr. Hewitt then joined I-Link as Sr. Vice President of Business Development and Product Marketing. At I-Link he launched the first US softswitch/IAD. The associated service became the first US national broadband voice network. He has received numerous "Product of the Year" awards and played a key role in increasing the market value of I-Link ten-fold to more than \$800 million.

Larry Stessel,
Chief Marketing Officer

Mr. Stessel became Chief Marketing Officer in May 2007 and has been acting in that capacity since November 2006. During his tenure with Sony Music from 1975 to 1991, Mr. Stessel was the executive in charge of marketing strategies for Michael Jackson (including Thriller, the biggest-selling album of all time), Babyface, Gloria Estefan, Celine Dion, The Charlie Daniels Band, Pearl Jam, Stevie Ray Vaughan, Luther Vandross and numerous other artists. As Senior VP/Marketing for Epic Records, Mr. Stessel directed all marketing and advertising campaigns, music video production, touring and media relations for that label's US operations.

As General Manager and Senior VP of Mercury Records from 1992 to 1994, Mr. Stessel oversaw the development of seven new platinum artists, including Vanessa Williams, Black Sheep, Rusted Root, Billy Ray Cyrus and The Mighty Mighty Bosstones. He also initiated marketing campaigns with third-party partners such as MasterCard, Discover Card, The National Football League and the Playboy Media Corporation. As General Manager and Senior VP of EMI Records from 1994 to 1996, Mr. Stessel oversaw all the activities of the marketing, sales, promotion, media relations, creative services, artist development, touring and video production departments.

As President of Alliance Entertainment's Independent National Distribution (INDI) from 1996 to 1998, Mr. Stessel directed all aspects of the business from label development and acquisition to sales campaigns and marketing operations. In 1997, Mr. Stessel founded Trillium Entertainment, an independent marketing and consulting company involved in strategic marketing campaigns, business plans, event marketing and corporate sponsorship opportunities for recording artists, start-up entertainment ventures, independent music labels, Internet companies and other entertainment-driven businesses. Mr. Stessel is an associate member of the National Association of Recording Arts and Sciences (NARAS) and a voting member of the Country Music Association (CMA).

Phillip C. Rapp,
*Managing Director –
Business Development*

Mr. Rapp joined the Company in October 2007 and has more than 30 years of senior executive experience in the financial services industry. From May 2002 through September 2007, Mr. Rapp was head of institutional trading for Labranche & Co., the New York Stock Exchange's largest specialist firm. From June 1996 to March 2002, Mr. Rapp was employed in a similar capacity for Knight Securities. From April 1993 to May 1996, Mr. Rapp was a Broker/Dealer at D.E. Shaw, a multi-billion dollar asset management company. Mr. Rapp has extensive experience developing real estate and evaluating computer-related technologies.

Douglas F. Bender,
*General Manager
and Senior Vice
President – Engineering*

Mr. Bender has served as General Manager and Senior Vice President-Engineering of the Company since November 2002. Mr. Bender is responsible for the Company's California operations, which include engineering and manufacturing. From 2000 to 2002, Mr. Bender co-founded and served as Vice President of Business Development for RealVue Simulation Technologies, a simulation technology company that develops complex equipment simulations for commercial and industrial manufacturers. From 1999 to 2000, Mr. Bender served as Vice President of Engineering for Splash Technologies, a color solutions technology company supplying the commercial and OEM color

Roy D. Stubbs II,
Vice President –
MIS Operations

print controller markets. From 1992 to 1999, Mr. Bender served as Vice President of Engineering and Operations for Western Development Laboratories (later acquired by Lockheed Martin), a communications company focused in the hi-speed digital satellite and medical radiology markets.

Mr. Stubbs has served the Company as Vice President – MIS Operations since January 2005. From 2003 to 2004, Mr. Stubbs worked as an independent consultant to business users of telecommunications and computer services. From 2000 to 2002, Mr. Stubbs served as Vice President of Engineering & Operations for Rapid Link Communications, a provider of Internet-based communications services. From 1998 to 2000, Mr. Stubbs serves as Vice President – Technical Operations of VIA Net.Works, Inc., a leading supplier of business communication products and solutions to small and medium-sized businesses in Europe and the US. From 1991 to 1998, Mr. Stubbs was the owner of DataSciences Atlanta, Inc., a provider of technology and network planning services to telecommunications providers. His clients included regional telecommunications services providers, a nationwide integrated digital pager/wristwatch network, a low earth orbit satellite phone system and an international provider of Advanced Intelligent Network services. From 1986 to 1990, Mr. Stubbs served as Vice President and General Manager of BellSouth Advanced Networks, Inc., a provider of enhanced network services.

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All decisions are made solely by the analyst and independent of outside parties or influence.

I, Victor Sula, PhD, the author of this report, certify that the material and views presented herein represent my personal opinion regarding the content and securities included in this report. In no way has my opinion been influenced by outside parties, nor has my compensation been either directly or indirectly tied to the performance of any security listed. I certify that I do not currently own, nor will own and shares or securities in any of the companies featured in this report.

Victor Sula, PhD - Senior Analyst

Victor Sula, PhD has held the position of Senior Analyst with several independent investment research firms since 2004. Prior to 2004, Mr. Sula held Senior Financial Consultant positions within the World Bank sponsored Agency for Restructuring and Enterprise Assistance and TACIS sponsored Center for Productivity and Competitiveness of Moldova, where he was involved in corporate reorganization and liquidation. He is also employed as Associate Professor at the Academy of Economic Studies of Moldova. Mr. Sula earned his PhD degree in 2001 and bachelor's degree in Finance in 1997 from the Academy of Economic Studies of Moldova. Mr. Sula is currently a level III candidate in the CFA program.