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IT&E INTERNATIONAL GROUP
Form 10QSB/A
October 25, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB/A

(Mark One)

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2005.

Transition Report under Section 13 or 15(d) of the Exchange Act For the Transition Period from _____ to _____

Commission File Number: 000-50095

IT&E International Group

(Exact name of small business issuer as specified in its charter)

Nevada

77-0436157

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

505 Lomas Santa Fe Drive, Suite 200, Solana Beach CA

92075

(Address of principal executive offices)

(zip code)

Issuers telephone number: 858-366-0970

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDING DURING THE PRECEDING FIVE YEARS

Check whether the Registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Common Stock, \$0.001 par value per share, 70,000,000 shares authorized, 21,344,198 issued and outstanding as of June 30, 2005. Preferred Stock, \$0.001 par value per share, 5,000,000 shares authorized, 2,000,000 issued and outstanding, and 820,000 to be issued subject to shareholder approval, as of June 30, 2005.

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Traditional Small Business Disclosure Format (check one)

Yes [] No [X]

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Explanatory Note

IT&E International Group (the "Company") is filing this Amendment on Form 10-QSB/A to its quarterly report on Form 10-QSB for the three and six months ended June 30, 2005 that was originally filed on August 15, 2005 (the "Original Form 10-QSB") to restate its financial statements for the three months and six months ended June 30, 2005 to reflect that the Company has determined that the item "Cash-restricted" in the amount of \$2,039,233 reflected on the balance sheet as a current asset does not fall within the definition of an "asset" under generally accepted accounting principles ("GAAP") since the restricted cash was under the sole dominion and control of Laurus Master Fund, Ltd. In addition, the item "Long-term convertible note payable, less current portion" reflected on the balance sheet has been correspondingly reduced by \$2,000,000 because the Company has also determined that the portion of the proceeds from the issuance of such convertible promissory note that was placed in the restricted account does not fall within the definition of "liability" under GAAP. This restatement also impacts the Statements of Operations, the Statements of Stockholders' Equity, and the Statements of Cash Flow for the three and six months ended June 30, 2005, as excess interest income of \$16,311 and \$32,371 for the three and six months ended June 30, 2005, respectively, had previously recorded, along with excess interest expense of \$24,887 and \$74,545 for the three and six months ended June 30, 2005, respectively, on the restricted proceeds, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Footnote 4 to the financial statements included herein have been amended to reflect the foregoing.

While this Amendment does not update any other information contained in the Original Form 10-QSB, for the convenience of the reader, this Amendment amends in its entirety the Original Form 10-QSB. This Amendment continues to speak as of the date of the Original Form 10-QSB, and the Company has not updated the disclosure contained herein to reflect any events that have occurred after that date.

PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND EXHIBITS

As prescribed by Item 310 of Regulation S-B, the registered independent public accounting firm has reviewed these unaudited interim financial statements of the registrant for the three and six months ended June 30, 2005. The financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim period presented. The unaudited financial statements of registrant for the three and six months ended June 30, 2005, follow.

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IT&E INTERNATIONAL GROUP Balance Sheet

| | June 30, 2005 (unaudited (restated)) |
|---|---|
| | |
| Assets | |
| Current assets: | |
| Cash | \$ 1,018,2 |
| Accounts receivable, net of allowance for doubtful accounts of \$75,000 at June 30, 2005 and December 31, 2004 | 2,252,7 |
| Unbilled revenue | 218,6 |
| Prepaid and other current assets | 148,5 |
| Total current assets | 3,638,1 |
| Fixed assets, net | 288,3 |
| Loan fees, net | 662,5 |
| Deposits | 14,3 |
| | |

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| | | | |
|---|----|---------|--|
| | \$ | 4,603,5 | |
| <hr/> | | | |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ | 483,2 | |
| Accrued payroll and employee benefits | | 612,8 | |
| Current portion of capital lease obligations | | 3,2 | |
| Current portion of convertible note payable | | 1,200,0 | |
| Accrued interest on note payable | | 23,5 | |
| Deferred rent | | 27,1 | |
| Other accrued liabilities | | 40,0 | |
| | | <hr/> | |
| Total current liabilities | | 2,390,1 | |
| Long-term capital lease obligations, less current portion | | 14,5 | |
| Long-term convertible note payable, less current portion | | 1,600,0 | |
| | | <hr/> | |
| | | 4,004,7 | |
| Stockholders' equity: | | | |
| Common stock, \$.001 par value, 70,000,000 shares authorized, 21,344,198 and 19,000,000 shares issued and outstanding, respectively | | 21,3 | |
| Preferred stock, \$.001 par value, 5,000,000 shares authorized, 2,000,000 shares issued and outstanding | | 2,0 | |
| Additional paid-in capital | | 1,125,4 | |
| Retained earnings (deficit) | | (550,0) | |
| | | 598,7 | |
| | | <hr/> | |
| | \$ | 4,603,5 | |
| <hr/> | | | |

The accompanying notes are an integral part of these financial statements.

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| | | | |
|-------------------------------------|---|--------------|----------|
| | IT&E INTERNATIONAL GROUP Statements of Operations (Unaudited) | | |
| | For the three months ended June 30, | | |
| | <hr/> | <hr/> | <hr/> |
| | 2005 | 2004 | 2005 |
| | (restated) | | (restate |
| | <hr/> | <hr/> | <hr/> |
| Service revenue | \$ 4,297,356 | \$ 3,221,834 | \$ 8,743 |
| Reimbursement revenue | 134,608 | 143,524 | 232 |
| | <hr/> | <hr/> | <hr/> |
| Total revenue | 4,431,964 | 3,365,358 | 8,976 |
| Cost of revenue | 3,006,847 | 2,153,185 | 6,021 |
| Reimbursable out-of-pocket expenses | 134,608.46 | 143,524 | 232 |
| | <hr/> | <hr/> | <hr/> |

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| | | | |
|--|--------------|------------|----------|
| Gross profit | 1,290,508.54 | 1,068,649 | 2,722 |
| Operating Expenses: | | | |
| General and administrative expenses | 753,440 | 679,823 | 1,553 |
| Sales and marketing expenses | 470,667 | 226,839 | 701 |
| Depreciation expense | 25,601 | 4,780 | 42 |
| Officer compensation | 242,096 | 118,750 | 448 |
| | ----- | ----- | ----- |
| Total operating expenses | 1,491,804 | 1,030,192 | 2,746 |
| | ----- | ----- | ----- |
| Net operating income | (201,295.46) | 38,457 | (24) |
| Other income (expense): | | | |
| Interest income | 2,318 | 0 | 2 |
| Interest expense | (95,067) | (8,778) | (145) |
| Loan fee amortization | (72,281) | 0 | (144) |
| Fees on long-term debt | 0 | 0 | (214) |
| Non-cash financing costs | 0 | 0 | (62) |
| Other income (expense) | 0 | 0 | |
| | ----- | ----- | ----- |
| Total other income (expense) | (165,020) | (8,778) | (564) |
| | ----- | ----- | ----- |
| Income (loss) before provision for income taxes | (366,325) | 29,679 | (588) |
| Provision for state income taxes | 0 | 0 | |
| Net income (loss) | \$ (366,325) | \$ 29,679 | \$ (588) |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding - basic and fully diluted | 20,844,437 | 19,000,000 | 19,938 |
| | ===== | ===== | ===== |
| Net income (loss) per share - basic and fully diluted | \$ (0.02) | \$ 0.00 | \$ (|
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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IT&E INTERNATIONAL GROUP
Statements of Cash Flow
(Unaudited)

For the six months
June 30,

2005
(restated)

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| | | | |
|---|----|-----------|----|
| Cash flows from operating activities | | | |
| Net income (loss) | \$ | (588,750) | \$ |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation expense | | 42,749 | |
| Amortization of loan fees | | 144,563 | |
| Deferred rent | | (3,110) | |
| Stock issued for financing costs | | 62,500 | |
| Stock issued for compensation | | 200,000 | |
| Changes in assets and liabilities: | | | |
| Accounts receivable | | 391,770 | |
| Unbilled revenue | | (85,205) | |
| Prepaid and other current assets | | (71,370) | |
| Accounts payable | | (112,930) | |
| Accrued payroll and employee benefits | | 290,584 | |
| Accrued interest on note payable | | 7,093 | |
| Other current liabilities | | 35,400 | |
| | | ----- | |
| Net cash provided by operating activities | | 313,294 | |
| | | ----- | |
| Cash flows from investing activities | | | |
| Purchase of fixed assets, including internal-use software | | (17,712) | |
| Deposits | | 19,370 | |
| | | ----- | |
| Net cash (used) by investing activities | | 1,658 | |
| | | ----- | |
| Cash flows from financing activities | | | |
| Proceeds from line of credit, net | | - | |
| Payments on capital lease obligations | | (1,233) | |
| Proceeds from convertible note payable | | 500,000 | |
| Payments on convertible note payable | | (200,000) | |
| Proceeds from exercise of warrants | | 1,800 | |
| Distributions to shareholders | | - | |
| | | ----- | |
| Net cash provided (used) by financing activities | | 300,567 | |
| | | ----- | |
| Net increase in cash and cash equivalents | | 615,519 | |
| Cash and cash equivalents, beginning of period | | 402,779 | |
| | | ----- | |
| Cash and cash equivalents, end of period | \$ | 1,018,298 | \$ |
| | | ===== | |
| Supplemental disclosures: | | | |
| Interest paid | \$ | 83,797 | \$ |
| | | ===== | |
| Income taxes paid | \$ | - | \$ |
| | | ===== | |

The accompanying notes are an integral part of these financial statements.

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In this discussion, the terms "Company", "we", "us", and "our", refer to IT&E International Group and subsidiaries, except where it is made clear otherwise.

We are a life sciences service organization focused on providing our clients with project-based consulting services in the areas of FDA regulatory compliance, data management, biometrics and clinical validation throughout the clinical trials lifecycle. Our services range from recruitment of patients for clinical trials and providing skilled personnel to assist with managing clinical trials, to providing enterprise software solutions and training to manage data to ensure FDA compliance. We also provide validation services for new pharmaceutical manufacturing facilities. We serve a variety of clients, including those in the private industry, public institutions, research facilities and the government.

We were incorporated in the State of Nevada in 2002 as Clinical Trials Assistance Corporation. In April 2004, we merged with IT&E International, Inc. and changed our name to IT&E International Group.

2. BASIS OF PRESENTATION

Correction of an Error

We have previously issued our consolidated financial statements for the three and six months ended June 30, 2005 and are now correcting these financial statements to reflect that we have determined that the item "Cash-restricted" in the amount of \$2,039,233 reflected on the balance sheet as a current asset does not fall within the definition of an "asset" under generally accepted accounting principles ("GAAP") since the restricted cash was under the sole dominion and control of Laurus Master Fund, Ltd. In addition, the item "Long-term convertible note payable, less current portion" reflected on the balance sheet has been correspondingly reduced by \$2,000,000 because the Company has also determined that the portion of the proceeds from the issuance of such convertible promissory note that was placed in the restricted account does not fall within the definition of "liability" under GAAP. This correction also impacts the Statements of Operations, and the Statements of Cash Flow for the three and six months ended June 30, 2005, as excess interest income of \$16,311 and \$32,371 had previously been recorded for the three and six months ended June 30, 2005, respectively, along with excess interest expense of \$24,927 and \$74,545 had previously been recorded for the three and six months ended June 30, 2005 on the restricted proceeds. These corrections also include the flow through effect of corrections that were made to our financial statements for the year ended December 31, 2004 and the three months ended March 31, 2005. The net impact for the three and six months ended June 30, 2005 is a reduction of the net loss of \$8,616 and \$42,174, respectively. Footnote 4 to the financial statements included herein has been amended to reflect the foregoing.

The effects on our previously issued June 30, 2005 financial statements are summarized as follows:

Balance Sheet as of June 30, 2005

| | Previously Reported | Increase (Decrease) | R |
|--|------------------------|------------------------|----|
| | ----- | ----- | |
| Cash - restricted | \$2,039,233 | \$ (2,039,233) | \$ |
| Total Current Assets | 5,677,410 | (2,039,233) | |
| Total Assets | 6,642,743 | (2,039,233) | |
| Current Liabilities | 2,503,156 | (113,000) | |
| Long-term convertible note payable, less | 3,600,000 | (2,000,000) | |

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| | | |
|-----------------------|-----------|-------------|
| current portion | | |
| Total Liabilities | 6,117,747 | (2,113,000) |
| Stockholders' Equity: | | |
| Net Loss | (630,924) | 42,174 |
| Total Liabilities and | | |
| Stockholders' Deficit | 6,642,743 | (2,039,233) |

Statement of Operations for the Three Months Ended June 30, 2005

| | Previously Reported | Increase (Decrease) | |
|------------------|------------------------|------------------------|----|
| | | | |
| Interest Income | \$ 18,629 | \$ (16,311) | \$ |
| Interest Expense | (119,994) | 24,927 | |
| Net Loss | (374,941) | 8,616 | |

Statement of Operations for the Six Months Ended June 30, 2005

| | Previously Reported | Increase (Decrease) | |
|------------------|------------------------|------------------------|----|
| | | | |
| Interest Income | \$ 34,689 | \$ (32,371) | \$ |
| Interest Expense | (220,333) | 74,545 | |
| Net Loss | (630,924) | 42,174 | |

The consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with our consolidated financial statements for the year ended December 31, 2004 and the notes thereto. We have followed the same accounting policies in the preparation of these consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results. Certain amounts in the 2004 financial statements have been reclassified to conform to the presentation of the 2005 financial statements.

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3. FIXED ASSETS

During the six months ended June 30, 2005 we had \$17,712 of fixed asset additions.

Depreciation expense totaled \$25,601 and \$4,780 for the three months ended June 30, 2005 and 2004, respectively, and \$42,749 and \$9,636 for the six months ended June 30, 2005 and 2004, respectively.

4. CONVERTIBLE DEBT

We have outstanding a \$5,000,000 secured convertible term note to Laurus Master Fund, Ltd ("Laurus"). \$2.5 million of these funds were originally placed into a restricted cash account that was under the sole dominion and control of Laurus as security for our obligations. The cash related to the restricted account has not been recorded as an asset on our balance sheet, nor has the amount of the secured convertible note that corresponds to the amount in the restricted account been recorded as a liability on our balance sheet since such funds are under the sole dominion and control of Laurus. Such restricted cash does not fall within the definition of an "asset" under generally accepted accounting principles ("GAAP") nor does the amount of the secured note that corresponds to the amount of cash in the restricted account fall within the definition of "liability" under GAAP. During the first quarter of 2005, as a result of not meeting the requirement of causing the registration statement covering the shares of our common stock into which the principal and interest under the Note are convertible to become effective, we have incurred fees of approximately \$214,000. During April 2005, Laurus released \$500,000 of the restricted funds to pay these fees, along with the accrued interest owed on the \$500,000. During August 2005, Laurus released the remaining \$2 million, plus the interest that had been earned on the restricted funds. Of this amount, approximately \$128,000 was used to pay interest that had been accruing under the note owed to Laurus. The remaining \$1.9 million is intended to be used for potential merger and acquisition activity, as well as other general operating purposes. The minimum monthly principal repayment of \$100,000 began on May 1, 2005 and continued through the August 1, 2005 payment. With the release of the remaining \$2 million, the minimum monthly principal repayment will increase to approximately \$177,000 and continue through the October 18, 2007 maturity date.

We recorded interest expense of approximately \$95,000 and \$146,000 for the three and six months ended June 30, 2005 related to this convertible note, and approximately \$9,000 and \$30,000 for the three and six months ended June 30, 2004 related to a bank line of credit that was paid off with the proceeds of the Laurus note.

5. STOCKHOLDER'S EQUITY

During March 2005, 83,330 shares of common stock were issued to SBI USA as payment for investment banking consulting services valued at \$62,500.

During April 2005, 500,000 shares of common stock were issued to our former Vice President of Sales for services rendered at a value of \$200,000, and in May 2005, 1,760,868 shares were issued as the result of the exercise of warrants previously granted to individuals associated with the April 2004 reverse merger.

Preferred stock outstanding at June 30, 2005 and December 31, 2005 has been adjusted by \$820 to account for 820,000 shares that were previously noted as outstanding, but are in fact to be issued subject to shareholder approval.

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Stock options

On April 29, 2005, we adopted the "2005 Equity Incentive Plan" (the "Plan") to provide a means by which we can retain and maximize the services of our current employees, directors and consultants. An aggregate of 7.5 million shares of our common stock may be issued pursuant to awards from the Plan. The Plan, and the options granted thereunder, are subject to shareholder approval. On that same date, incentive and nonqualified stock options with rights to purchase 1,784,250 shares of the Company's \$0.001 par value common stock were granted at an exercise price of \$.25. Of the options granted to date, 1,333,750 options were granted to our officers.

The following is a summary of activity of outstanding stock options under the 2005 Equity Incentive Plan:

| | Number of Shares | Weighted Average Exercise Price | |
|--------------------------------|---------------------|--|--|
| | ----- | ----- | |
| Options granted April 29, 2005 | 1,784,250 | \$ 0.25 | |
| Options exercised | - | - | |
| | ----- | | |
| Balance at June 30, 2005 | 1,784,250 | \$ 0.25 | |
| | ===== | | |
| Exercisable at June 30, 2005 | 127,041 | \$ 0.25 | |
| | ===== | | |

The following is a summary of information about the 2005 Stock Option Plan options outstanding at June 30, 2005:

| Shares Underlying Options Outstanding | | | | Shares Underlying Options Exercisable | |
|---------------------------------------|------------------------|---|--|--|-------------------|
| Range of Exercise Prices | Outstanding Options | Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable | Exercise Price |
| \$0.25-\$0.25 | 1,784,250 | 3 years | \$ 0.25 | 127,041 | \$ 0.25 |

We measure our stock-based compensation using the intrinsic value method of accounting in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." Because we establish the exercise price based on the fair market value of our common stock at the date of grant, the options have no intrinsic value upon grant, and therefore no expense is recorded. Equity instruments issued to non-employees for goods and services are accounted for at fair value.

As required by Financial Accounting Standards Board (FAS) No. 123, "Accounting for Stock-Based Compensation," and FAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the pro forma effects of stock-based compensation on net loss and net loss per common share have been estimated at the date of grant using the Black-Scholes option pricing model with the

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following assumptions used for grants under the fixed option plan: average risk-free interest rate of 3.73%, average expected life of 3 years, and a volatility rate of 70.20%.

| | Three Months Ended June 30, 2005 | | |
|--|-------------------------------------|-----------|----|
| | 2005 | 2004 | |
| Net income (loss) attributable to common stockholders: | | | |
| As reported | \$ (374,941) | \$ 29,679 | \$ |
| Fair value of stock-based employee compensation | (211,304) | - | |
| Pro forma | \$ (586,245) | \$ 29,679 | \$ |
| Net income (loss) per share: | | | |
| As reported | \$ (0.02) | \$ - | \$ |
| Proforma | \$ (0.03) | \$ - | \$ |

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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

The information discussed below is derived from the Financial Statements included in this Form 10-QSB for the three and six months ended June 30, 2005, and should be read in conjunction therewith. Our results of operations for a particular quarter may not be indicative of results expected during subsequent quarters or for the entire year.

Company Overview

We are a life sciences service organization focused on providing our clients with project-based consulting services in the areas of FDA regulatory compliance, data management, biometrics and clinical validation throughout the clinical trials lifecycle. Our services range from recruitment of patients for clinical trials and providing skilled personnel to assist with managing clinical

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trials, to providing enterprise software solutions and training to manage data to ensure FDA compliance. We also provide validation services for new pharmaceutical manufacturing facilities. We serve a variety of clients, including those in the private industry, public institutions, research facilities and the government. We are managed in one reportable segment.

Our contracts are primarily time and materials contracts that recognize revenue as hours are worked based on the hourly billing rates for each contract.

We incur out-of-pocket costs in excess of contract amounts. These out-of-pocket costs are generally reimbursable by our customers. We include out-of-pocket costs as reimbursement revenues and reimbursable out-of-pocket expenses in the Statements of Operations.

Cost of revenue consists of compensation and related payroll taxes for our project-related staff, as well as for externally contracted personnel. Sales and marketing expenses consist of compensation and related payroll taxes for sales and marketing personnel, along with their out-of-pocket costs, as well other costs such as advertising and trade shows. General and administrative expenses consist of compensation and related payroll taxes for our administrative staff, fringe benefits for all personnel, outside professional costs, facility costs and other costs.

Our industry continues to be dependent on the research and development efforts of pharmaceutical and biotechnology companies as major customers, and we believe this dependence will continue. Our client list includes many of the top-tier pharmaceutical and biotechnology companies. Through the six months ended June 30, 2005, contracts with Boston Scientific, Schering-Plough and Pfizer resulted in approximately 20%, 13% and 12% of our service revenues, respectively. The loss of business from any of our major customers could have a material adverse effect on us.

We are in the process of seeking other businesses to acquire so that we can expand our operations. These acquisitions could result in us needing to incur additional debt or sell or issue additional equity to fund the transactions. Analysis of new business opportunities and evaluation of new business strategies will be undertaken by or under the supervision of our Board of Directors. In analyzing prospective acquisition opportunities, management will consider, to the extent applicable, the available technical, financial and managerial resources of any given business venture. We will also consider the nature of present and expected competition; potential advances in research and development or exploration; the potential for growth and expansion; the likelihood of sustaining a profit within given time frames; the perceived public recognition or acceptance of products, services, trade or service marks; name identification; and other relevant factors.

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We will analyze all relevant factors and make a determination based on a composite of available information, without reliance on any single factor. The period within which we will decide to participate in a given business venture cannot be predicted and will depend on certain factors, including the time involved in identifying businesses, the time required for us to complete our analysis of such businesses, the time required to raise the funds required for the transaction, the time required to prepare appropriate documentation and other circumstances.

Though the overall outlook for our continued financial growth remains positive as our pipeline for new customers remains solid, our results of operations are subject to volatility due to a variety of factors. The cancellation or delay of

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contracts and cost overruns could have short-term adverse affects on the financial statements. Fluctuations in the ability to maintain large customer contracts or to enter into new contracts could hinder our long-term growth. In addition, our aggregate backlog, consisting of signed contracts and letters of intent, is not necessarily a meaningful indicator of future results. Accordingly, no assurance can be given that we will be able to realize the service revenues included in our backlog.

We will continue to move ahead on the execution of our strategic plans to raise additional capital to be used to make further strategic acquisitions in the coming quarters, positioning IT&E for a stronger position in our industry.

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Results of Operations

Service Revenues

Service revenues for the second quarter ended June 30, 2005, were \$4.3 million, an increase of 33% from the same quarter last year of \$3.2 million. This increase in revenue is a result of our change in sales strategy that we began during the second half of 2004 to target major pharmaceutical and biotechnology customers. We also expanded our services to clients supporting the U.S. Government's Bio Defense initiatives by assisting companies that are producing needed vaccines for anti-terrorism measures.

Service revenues for the six months ended June 30, 2005, were \$8.7 million, an increase of 37% from the same period in 2004 of \$6.4 million. This increase is also due the reasons noted in the previous paragraph.

Reimbursement Revenues

Reimbursable out-of-pocket revenues fluctuate from period to period, primarily due to the level of service activity in a particular period. Reimbursement revenues increased 62% to \$98,000 in the first quarter of 2005 from \$61,000 in the same quarter of 2004.

Operating Expenses

Cost of revenues for the three months ended June 30, 2005 were \$3.0 million, an increase of approximately 40%, from \$2.2 million in the second quarter of 2004. Gross profit as a percentage of service revenues were 30% for the second quarter of 2005 as compared to 33% during the same period in 2004. Cost of revenues for the six months ended June 30, 2005 were \$6.0 million as compared to \$4.3 million during the same period of 2004. Gross profit as a percentage of service revenues during those six month periods were 31% and 33% in 2005 and 2004, respectively. During the second quarter of 2005 we earned lower margins than in 2004 as a result of servicing contracts in which we initially took lower margins to secure selected new business. In addition, during the second quarter of 2005, we completed several projects and were not able to immediately place our personnel on new projects resulting in costs being incurred without the ability to invoice a customer. We are working to improve these margins by way of controlling the cost of providing our contractors to the customer, as well as to improve our personnel management to reduce the amount of time our employees are not billable.

General and administrative expenses increased by approximately \$74,000, or 11%, to \$753,000 during the second quarter of 2005 as compared to \$680,000 during the second quarter of 2004. This increase is primarily the result of increased costs associated with being a public company that we did not have in 2004, as well as

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costs incurred to add depth to our management team, and for outside consultants to assist us with our merger and acquisition strategy. We expect these costs to continue throughout 2005 as we continue to grow as a public entity and move ahead with our strategy of seeking follow-on investors to support our acquisition strategy.

Sales and marketing expenses increased by \$244,000 to \$471,000 in the second quarter of 2005 from \$227,000 during the second quarter of 2004. The increase is primarily the result of the issuance of 500,000 shares of common stock to our former Vice President of Sales for his part in the growth of the company. These shares were valued at \$200,000 on the date of issuance.

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Depreciation and amortization expense increased to \$25,601 in the second quarter of 2005 from \$4,780 during the same period in 2004. The increase is due to our beginning to depreciate our developed internal-use software during the first quarter of 2005.

Officer compensation increased to \$242,000 during the second quarter of 2005 as compared to \$119,000 in 2004. During 2004, the cash situation was such that the officers paid themselves a reduced salary in order to pay other company commitments.

Other Income (Expense)

We did not earn any interest income during the first six months of 2004. Interest income for the three and six months ended June 30, 2005 was approximately \$2,300.

Interest expense increased to approximately \$95,000 and \$146,000 during the three and six months ended June 30, 2005 from approximately \$9,000 and \$30,000 during the same periods in 2004. This increase is the result of moving from a \$1.5 million bank line of credit to the convertible note with Laurus. No interest has been accrued on the \$2.0 million of restricted funds as it is not due unless such funds are released for our use.

Loan fee amortization was approximately \$72,000 and \$144,000 for the three and six months ended June 30, 2005. The loan fee costs were incurred related to the \$5 million convertible note with Laurus. There were no loan fees incurred during the same periods in 2004.

During the first quarter of 2005, we incurred fees to Laurus as a result of not meeting the requirement of causing the registration statement covering the shares of our common stock into which the principal and interest under the note are convertible to become effective. During April 2005, Laurus released \$500,000 of the restricted funds to pay these fees, along with the accrued interest on those funds. In addition, the requirement to have the registration statement become effective was extended to June 15, 2005 before any additional fees are incurred. This requirement was further extended to August 31, 2005 upon the release of the final \$2 million of restricted funds.

During the first quarter of 2005, we issued 83,330 shares of our common stock to SBI USA as payment for investment banking consulting services valued at \$62,500.

During the second quarter ended June 30, 2005, 500,000 shares of common stock were issued to our former Vice President of Sales for services rendered, and 1,784,250 shares were issued as the result of the exercise of warrants previously granted to individuals associated with the April 2004 reverse merger.

Liquidity and Capital Resources

At June 30, 2005, cash and cash equivalents was approximately \$1.0 million, an increase of approximately, \$600,000 from December 31, 2004. In August 2005, the remaining \$2 million was released from Laurus and is intended to be used for potential merger and acquisition activity, as well as other general operating purposes. The minimum monthly principal repayment of \$100,000 began on May 1, 2005 and continued through the August 1, 2005 payment. With the release of the remaining \$2 million, the minimum monthly principal repayment will increase to \$177,000 and continue through the October 18, 2007 maturity date.

Accounts receivable at June 30, 2005 was \$2.3 million, net of an allowance for doubtful accounts of \$75,000, as compared to accounts receivable at December 31, 2004 of \$2.6 million, net of an allowance for doubtful accounts of \$75,000. The decrease was due primarily to increased activity in bringing our accounts receivable more current. We review our outstanding receivables on a monthly basis to determine collectibility, and we believe that maintaining our allowance at \$75,000 is proper due the number of well-established customers that we are servicing and our collection history.

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Unbilled revenues are receivables recognized as revenue for which services or costs have been incurred, but invoices have not been sent to customers as of the end of a month. At June 30, 2005, unbilled revenues were approximately \$219,000, as compared to \$133,000 at December 31, 2004.

Need for Additional Funding

With our current contract backlog and sales pipeline of in excess of \$20.0 million, and our current cash and accounts receivables balance, we believe that we have adequate resources to fund our operations through 2005. There can be no assurance that market conditions will permit us to raise sufficient funds for strategic acquisitions or that additional financing will be available when needed or on terms acceptable to us.

Total Current Assets at June 30, 2005 were approximately \$3.6 million as compared to approximately \$3.3 million as of December 31, 2004.

Total Current Liabilities at June 30, 2005 were approximately \$2.4 million as compared to approximately \$1.6 million at December 31, 2004. This increase is primarily the result of an increase in accrued payroll and employee benefits, an increase in the current portion owed on the note payable to Laurus since principal payments began on May 1, 2005.

Total Liabilities at June 30, 2005 were approximately \$4.0 million as compared to \$3.5 million at December 31, 2004. Of the amount due at June 30, 2005, \$2.8 million was due to Laurus.

We anticipate that our cash requirements will continue to increase as we continue to expend substantial resources to build our infrastructure, develop our business plan and expand our sales and marketing network operations, customer support and administrative organizations. We currently anticipate that our available cash resources and cash generated from operations will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for the next twelve months. If we are unable to maintain profitability, or seek further expansion, additional funding will become necessary. No assurances can be given that either equity or debt financing will be available.

Employees

At June 30, 2005, IT&E employed 88 employees. These employees represent the following employment mix for the company: 10% administration, 5% recruiting, 5% sales, and 80% contract service providers. Additionally, we utilize the services of approximately 20 outside consultants who work as independent contractors.

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Market For Company's Common Stock

(i) Market Information

Our common stock is traded on the OTC Bulletin Board under the symbol "ITER." There has been limited trading activity in the common stock. There are no assurances trading activity will take place in the future for our common stock.

We did not repurchase any of our shares during the first six months of 2005.

(ii) Dividends

Holders of common stock are entitled to receive such dividends as the board of directors may from time to time declare out of funds legally available for the payment of dividends. No dividends have been paid on our common stock, and we do not anticipate paying any dividends on our common stock in the foreseeable future.

Forward-Looking Statements

This Form 10-QSB includes "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. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-QSB which address activities, events or developments which we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), finding suitable merger or acquisition candidates, expansion and growth of our business and operations, and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.

However, whether actual results or developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, general economic market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by us; changes in laws or regulation; and other factors, most of which are beyond our control.

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This Form 10-QSB contains statements that constitute "forward-looking statements." These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "intends," "estimates," "plans," "may," "will," or similar terms. These statements appear in a number of places in this Registration and include statements regarding the intent, belief or current expectations of the Company, our directors or our officers with respect to, among other things: (i) trends affecting our financial condition or results of operations for our limited history; (ii) our business and growth strategies; and, (iii) our financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that could adversely affect actual results and performance include, among others, our limited operating history, potential fluctuations in quarterly operating results and expenses, government regulation, technological change and competition.

Consequently, all of the forward-looking statements made in this Form 10-QSB are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or our business or operations. We assume no obligations to update any such forward-looking statements.

Item 3. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

We are not a party to any legal proceedings.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter ended June 30, 2005, we issued 500,000 shares of common stock to our former Vice President of Sales for services rendered, and 1,760,868 shares were issued as the result of the cashless exercise of warrants previously granted to individuals associated with the April 2004 reverse merger.

The offers, sales and issuance of these securities were deemed exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance on Section 4(2) of the Securities Act and/or Regulation D

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promulgated thereunder as transactions not involving a public offering.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

During the quarter ended, no matters were submitted to our security holders.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

(a) Exhibits

| Exhibit Number | Title of Document |
|----------------|--|
| 10.1 | Omnibus Amendment dated July 29, 2005 by and between the Registrant and Laurus Master Fund Ltd and related Amended and Restated Secured Convertible Term Note. |
| 31.1 | Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the Registrant caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

IT&E International Group

(Registrant)

Dated: October 25, 2005

By: /s/ Peter R. Sollenne

Peter R. Sollenne
Chief Executive Officer
Director

Dated: October 25, 2005

By: /s/ Kelly Alberts

Kelly Alberts
President/COO
Director