

IT&E INTERNATIONAL GROUP

Form 10QSB/A

April 11, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Amendment No. 2)

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

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

For the transition period from _____ to _____

Commission file number 000-50095

IT&E International Group, Inc.

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

Delaware
(State of other jurisdiction of incorporation or
organization)

20-4354185
(IRS Employer Identification No.)

505 Lomas Santa Fe Drive, Suite 200
Solana Beach, CA
(Address of principal executive offices)

92075
(Zip Code)

Issuer's telephone number, including area code: **(858) 366-0970**

(Former name, former address and former fiscal year, if changed since last report)

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**

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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

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Common Stock, \$0.001 par value per share, 70,000,000 shares authorized, 19,083,330 issued and outstanding as of March 31, 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 March 31, 2005.

Traditional Small Business Disclosure Format (check one) Yes No

Explanatory Note

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On March 28, 2006, the Audit Committee of our Board of Directors, in connection with the preparation of our year-end financial statements, determined that the errors identified by management and described below with respect to our financial statements for: (i) the year ended December 31, 2004, (ii) each of the quarters ended March 31, June 30, and September 30, 2005, and (iii) each of the quarters ended June 30 and September 30, 2004, were such that the financial statements related to the foregoing periods should no longer be relied upon.

IT&E International Group, Inc. (the Company) is filing this Amendment No. 2 on Form 10-QSB/A to the quarterly report on Form 10-QSB for the three months ended March 31, 2005 that was originally filed on May 13, 2005 (the Original Form 10-QSB) by IT&E International Group, a Nevada corporation and the predecessor to IT&E International Group, Inc., and amended and refiled on October 25, 2005 to correct an error that was discovered related to the deferral of income taxes associated with a required change in the method of recognizing income and expenses for purposes of our tax returns at the time of the merger between IT&E International Group and Clinical Trials Assistance Corp. in April of 2004. At such time, we were required to recognize income and expenses on an accrual basis rather than a cash basis of accounting. As a result, we have determined that a deferred tax liability of \$581,106 should have been recognized in the quarter ended June 30, 2004 with a corresponding charge to deferred tax expense. This deferred tax liability should have then been adjusted in the quarter ended December 31, 2004 to \$440,641 resulting in the recognition of \$140,465 of deferred tax benefit. In addition, for each of the first three quarters of 2005, a deferred tax liability of \$440,641 should have been included on the respective period end balance sheets. This adjustment has no impact on our actual cash flows; however, it will result in some reclassifications within the statements of cash flows for the applicable periods.

The section of this 10-QSB/A entitled, Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 2 to the financial statements included herein and Item 3 of Part I have been amended to reflect the foregoing.

While this Amendment No. 2 does not update any other information contained in the Original Form 10-QSB or Amendment No. 1 thereto, for the convenience of the reader, this Amendment No. 2 amends in its entirety the Original Form 10-QSB as amended by Amendment No. 1 thereto. This Amendment No. 2 continues to speak as of the date of the Original Form 10-QSB, and, except for Item 3 of Part I of this Amendment No. 2, the Company has not updated the disclosure contained herein to reflect any events that have occurred after that date.

FORM 10-QSB/A

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements and Exhibits

As prescribed by Item 310 of Regulation S-B, the independent auditor has reviewed these unaudited interim financial statements of the registrant for the three months ended March 31, 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 months ended March 31, 2005, follow.

IT&E INTERNATIONAL GROUP
Balance Sheets

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| | March 31, 2005 (unaudited and restated) | December 31, 2004 (restated) |
|---|---|------------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 824,304 | \$ 402,779 |
| Accounts receivable, net of allowance for doubtful accounts for doubtful accounts of \$75,000 at March 31, 2005 and December 31, 2004 | 2,309,555 | 2,644,501 |
| Unbilled revenue | 335,853 | 133,398 |
| Prepaid and other current assets | 182,907 | 77,175 |
| Total current assets | \$ 3,652,619 | \$ 3,257,853 |
| Fixed assets, net | | |
| Loan fees, net | 308,586 | 313,435 |
| Deposits | 734,863 | 807,144 |
| | 28,881 | 33,724 |
| | \$ 4,724,949 | \$ 4,412,156 |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 469,718 | \$ 380,265 |
| Accrued payroll and employee benefits | 634,944 | 322,300 |
| Current portion of capital lease obligations | 3,164 | 3,089 |
| Current portion of convertible note payable | 916,663 | 666,667 |
| Accrued interest and fees owed on note payable | 238,808 | |
| Deferred rent | 28,738 | 30,293 |
| Deferred tax liability | 440,641 | 440,641 |
| Other accrued liabilities | 70,834 | 236,981 |
| Total current liabilities | 2,803,510 | 2,080,236 |
| Long-term capital lease obligations, less current portion | 15,456 | 16,015 |
| Long-term convertible note payable, less current portion | 1,583,337 | 1,833,333 |
| | 4,402,303 | 3,929,584 |
| Stockholders equity | | |
| Common stock, \$0.001 par value, 70,000,000 shares authorized, 19,083,330 shares issued and outstanding | 19,083 | 19,000 |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized, 2,000,000 issued and outstanding | 2,000 | 2,000 |
| Additional paid-in capital | 925,957 | 863,540 |
| Retained deficit | (624,394) | (401,968) |
| | 322,646 | 482,572 |
| | \$ 4,724,949 | \$ 4,412,156 |

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

IT&E INTERNATIONAL GROUP
Statements Of Operations
(Unaudited)

| | For the three months ended March 31, | |
|---|---|-------------------|
| | 2005 | 2004 |
| Service revenue | \$ 4,446,580 | \$ 3,145,018 |
| Reimbursement revenue | 98,346 | 60,662 |
| Total revenue | 4,544,926 | 3,205,680 |
| Cost of revenue | 3,014,611 | 1,997,354 |
| Reimbursable out-of-pocket expenses | 98,346 | 60,662 |
| Gross profit | 1,431,969 | 1,147,664 |
| Operating Expenses: | | |
| General and administrative expenses | 814,189 | 511,603 |
| Sales and marketing expenses | 230,682 | 256,047 |
| Depreciation expense | 17,148 | 4,968 |
| Officer salaries | 185,462 | 98,752 |
| Total operating expenses | 1,247,481 | 871,370 |
| Net operating income | 184,488 | 276,294 |
| Other income (expense): | | |
| Interest expense | (50,721) | (21,686) |
| Loan fee amortization | (72,281) | |
| Fees on long-term debt | (221,412) | |
| Non-cash financing costs | (62,500) | |
| Other income (expense) | | 14,490 |
| Total other income (expense) | (406,914) | (7,196) |
| Income (loss) before provision for income taxes | (222,426) | 269,098 |
| Provision for income taxes | | |
| Net income (loss) | \$ (222,426) | \$ 269,098 |
| Weighted average number of common shares outstanding | 19,022,221 | 11,000,000 |
| Net income per share basic and fully diluted | \$ (0.01) | \$ 0.02 |

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

IT&E INTERNATIONAL GROUP

Statements Of Cash Flow

(Unaudited)

| | For the three months ended | |
|--|----------------------------|------------|
| | 2005 | 2004 |
| March 31, | | |
| Cash flows from operating activities | | |
| Net income (loss) | \$ (222,426) | \$ 269,098 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation expense | 17,148 | 4,968 |
| Amortization of loan fees | 72,281 | |
| Deferred rent | (1,555) | |
| Stock issued for financing costs | 62,500 | |
| Changes in assets and liabilities: | | |
| Accounts receivable | 334,946 | (541,883) |
| Unbilled revenue | (202,455) | |
| Prepaid and other current assets | (105,732) | |
| Accounts payable | 89,453 | 237,541 |
| Accrued payroll and employee benefits | 312,644 | 78,540 |
| Accrued interest and fees owed on a note payable | 238,808 | |
| Other current liabilities | (166,147) | 12,490 |
| Net cash provided by operating activities | 429,465 | 60,754 |
| Cash flows from investing activities | | |
| Purchase of fixed assets, including internal-use software | (12,299) | (156,576) |
| Deposits | 4,843 | (1,450) |
| Net cash (used) by investing activities | (7,456) | (1,450) |
| Cash flows from financing activities | | |
| Proceeds from line of credit, net | | 143,000 |
| Payments on capital lease obligations | (484) | |
| Distributions to shareholders | | (3,700) |
| Net cash provided (used) by financing activities | (484) | 139,300 |
| Net increase in cash and cash equivalents | 421,525 | 42,028 |
| Cash and cash equivalents, beginning of period | 402,779 | 173,236 |
| Cash and cash equivalents, end of period | \$ 824,304 | \$ 215,264 |
| Supplemental disclosures: | | |
| Interest paid | \$ 48,680 | |
| Income taxes paid | | |

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

IT&E INTERNATIONAL GROUP

NOTES TO RESTATED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

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

Restatement of Financial Statements

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On March 28, 2006, the Audit Committee of our Board of Directors, in connection with the preparation of our year-end financial statements, determined that the errors identified by management and described below with respect to our financial statements for: (i) the year ended December 31, 2004, (ii) each of the quarters ended March 31, June 30, and September 30, 2005, and (iii) each of the quarters ended June 30 and September 30, 2004, were such that the financial statements related to the foregoing periods should no longer be relied upon.

IT&E International Group, Inc. (the Company) is filing this Amendment on Form 10-QSB/A to the quarterly report on Form 10-QSB for the three months ended March 31, 2005 that was originally filed on May 13, 2005 (the Original Form 10-QSB) by IT&E International Group, a Nevada corporation and the predecessor to IT&E International Group, Inc., and amended and refiled on October 25, 2005 to correct an error that was discovered related to the deferral of income taxes associated with a required change in the method of recognizing income and expenses for purposes of our tax returns at the time of the merger between IT&E International Group and Clinical Trials Assistance Corp. in April of 2004. At such time, we were required to recognize income and expenses on an accrual basis rather than a cash basis of accounting. As a result, we have determined that a deferred tax liability of \$581,106 should have been recognized in the quarter ended June 30, 2004 with a corresponding charge to deferred tax expense. This deferred tax liability should have then been adjusted in the quarter ended December 31, 2004 to \$440,641, resulting in the recognition of \$140,465 of deferred tax benefit. In addition, for each of the first three quarters of 2005, a deferred tax liability of \$440,641 should have been included on the respective period end balance sheets. This adjustment has no impact on our actual cash flows; however, it will result in some reclassifications within the statements of cash flows for the applicable periods.

The section of this 10-QSB/A entitled, Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 2 to the financial statements included herein and Item 3 of Part I have been amended to reflect the foregoing.

The effect on our previously issued 2005 financial statements are summarized as follows:

Balance Sheet as of March 31, 2005

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| | Previously Reported | Increase (Decrease) | Restated |
|------------------------|------------------------|------------------------|------------|
| Deferred tax liability | \$ | \$ 440,641 | \$ 440,641 |
| Current Liabilities | 2,362,869 | 440,641 | 2,803,510 |
| Total Liabilities | 3,961,662 | 440,641 | 4,402,303 |
| Retained Deficit | (183,753) | (440,641) | (624,394) |

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.

3. FIXED ASSETS

During the quarter ended March 31, 2005, we had \$12,299 of fixed asset additions.

Depreciation expense totaled \$17,148 and \$4,968 for the three months ended March 31, 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 placed into a restricted cash account and is 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 quarter, 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 \$221,000. During April 2005, Laurus released \$500,000 of the restricted funds to pay these fees, along with the accrued interest owed on those funds. The remaining \$267,000 will be used for general operating procedures. The minimum monthly principal repayment of \$100,000 began on May 1, 2005 and will continue through the October 18, 2007 maturity date.

We recorded interest expense of approximately \$51,000 for the three months ended March 31, 2005 related to this convertible note, and approximately \$22,000 for the three months ended March 31, 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.

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 months ended March 31, 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

Restatement of Financial Statements

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On March 28, 2006, the Audit Committee of our Board of Directors, in connection with the preparation of our year-end financial statements, determined that the errors identified by management and described below with respect to our financial statements for: (i) the year ended December 31, 2004, (ii) each of the quarters ended March 31, June 30, and September 30, 2005, and (iii) each of the quarters ended June 30 and September 30, 2004, were such that the financial statements related to the foregoing periods should no longer be relied upon.

IT&E International Group, Inc. (the Company) is filing this Amendment No. 2 on Form 10-QSB/A to the quarterly report on Form 10-QSB for the three months ended March 31, 2005 that was originally filed on May 13, 2005 (the Original Form 10-QSB) by IT&E International Group, a Nevada corporation and the predecessor to IT&E International Group, Inc., and amended and refiled on October 25, 2005 to correct an error that was discovered related to the deferral of income taxes associated with a required change in the method of recognizing income and expenses for purposes of our tax returns at the time of the merger between IT&E International Group and Clinical Trials Assistance Corp. in April of 2004. At such time, we were required to recognize income and expenses on an accrual basis rather than a cash basis of accounting. As a result, we have determined that a deferred tax liability of \$581,106 should have been recognized in the quarter ended June 30, 2004 with a corresponding charge to deferred tax expense. This deferred tax liability should have then been adjusted in the quarter ended December 31, 2004 to \$440,641 resulting in the recognition of \$140,465 of deferred tax benefit. In addition, for each of the first three quarters of 2005, a deferred tax liability of \$440,641 should have been included on the respective period end balance sheets. This adjustment has no impact on our actual cash flows; however, it will result in some reclassifications within the statements of cash flows for the applicable periods.

The section of this 10-QSB/A entitled, Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 2 to the financial statements included herein and Item 3 of Part I have been amended to reflect the foregoing.

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 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 fringe benefits for our project-related staff, as well as for externally contracted personnel. Sales and marketing expenses consist of compensation and related fringe benefits 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 fringe benefits for administrative 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. The loss of business from any of our major customers could have a material adverse effect on us.

Our client list includes such well-known pharmaceuticals and biotechnology companies as Eli Lilly, Novartis, Chiron, Pfizer, Bristol-Myers Squibb, Glaxo Smith Kline, Abbott, Schering-Plough, Amgen, Baxter, Aventis Pasteur, Wyeth, Vaxgen, Boston Scientific and Genentech. We are in the process of seeking other businesses to acquire so that we can expand our operations. The 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.

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 prepare appropriate documentation and other circumstances.

Though the overall outlook for our continued financial growth remains very 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 contracts and cost overruns could have short-term adverse effects 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 leadership position in our industry.

Results of Operations

Service Revenues

Service revenues for the first quarter ended March 31, 2005, were \$4.4 million, an increase of 41.4% from the same quarter last year of \$3.2 million. This is the second consecutive quarter that we have achieved same quarter revenue growth in excess of 40%. Service revenue for this quarter also represents an increase of 10.3% from the \$4 million service revenue earned during the fourth quarter of 2004. This increase in revenue is a result in our change in sales strategy 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. In addition, we have secured renewals and extensions of major initiatives within existing clients, such as Schering-Plough, Pfizer, Novartis, GlaxoSmithKline, Baxter Pharmaceutical, Aventis Pasteur, Bayer, Wyeth Global, Genentech, Chiron, Amgen, Boston Scientific and VaxGen.

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 increased approximately \$1.0 million, or 51%, to \$3.0 million in the first quarter of 2005 from \$2.0 million during the first quarter of 2004. Gross profit as a percentage of service revenues were 32.2% for the first quarter of 2005 as compared to 36.5% during the same period in 2004. During the quarter 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. We are working to improve these margins by way of controlling the cost of providing our contractors to the customer.

General and administrative expenses increased by approximately \$303,000, or 59%, to \$814,000 during the first quarter of 2005 as compared to \$512,000 during the first 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 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 during the second quarter and 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 decreased by \$25,000, or 10%, to \$231,000 in the first quarter of 2005 from \$256,000 during the first quarter of 2004.

Depreciation and amortization expense increased to \$17,000 in 2005 from \$5,000 in 2004. The increase is due to our beginning to depreciate our developed internal-use software during the first quarter of 2005.

Officer salaries increased to \$185,000 in 2005 from \$99,000 in 2004, an increase of 87%. During 2004, the cash situation was such that the officers did not pay themselves on a regular basis in order to pay other company commitments.

Other Income (Expense)

Interest expense increased to approximately \$51,000 during the first quarter of 2005 from \$22,000 during the same period of 2004. This increase is the result of moving from a \$1.5 million bank line of credit to the \$5 million convertible note with Laurus. No interest has been accrued on the \$2.5 million of restricted funds as it is not due unless such funds are released for our use.

Loan fee amortization was approximately \$72,000 for the first quarter of 2005. The loan fee costs were incurred related to the \$5 million convertible note with Laurus.

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.

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.

Liquidity and Capital Resources

Cash and cash equivalents increased by approximately \$422,000 for the three months ended March 31, 2005. At March 31, 2005, cash and cash equivalents amounted to approximately \$824,000.

Accounts receivable at March 31, 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.

Unbilled revenues are receivables recognized as revenue for which invoices have not been sent to customers. At March 31, 2005, unbilled revenues were approximately \$336,000.

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 March 31, 2005 were approximately \$3.7 million as compared to approximately \$3.3 million as of December 31, 2004.

Total Current Liabilities at March 31, 2005 were approximately \$2.8 million as compared to approximately \$2.0 million at December 31, 2004. This increase is primarily the result of an increase in accrued payroll and employee benefits, and an increase in the current portion owed on the note payable to Laurus since principal payments begin on May 1, 2005.

Total Liabilities at March 31, 2005 were approximately \$4.4 million as compared to \$3.9 million at December 31, 2004. Of the amount due at March 31, 2005, approximately \$2.7 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 March 31, 2005, IT&E employed 90 employees. These employees represent the following employment mix for the company: 10% administration, 7% recruiting, 6% sales, and 77% contract service providers. Additionally, we utilize the services of approximately 30 outside consultants who work as independent contractors.

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 quarter 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.

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, 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 originally concluded that our disclosure controls and procedures were 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.

However, as a result of the discovery of the errors which have resulted in the restatement of certain of our financial statements that were discovered in connection with our year-end audit for the fiscal year ended December 31, 2005, we have concluded that our disclosure controls and procedures were not effective during the quarter ended March 31, 2005.

The evaluation of our disclosure controls and procedures included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in our periodic reports. During the course of our evaluation of our controls for the year ended December 31, 2005, we advised the audit committee of our board of directors that we had identified certain issues that on an accumulated basis rose to the level of a material weakness in our disclosure controls and related internal controls. A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects our ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of our annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Specifically, we identified the following items that each individually constitute a significant deficiency and collectively constitute a material weakness:

Insufficient numbers of personnel having appropriate knowledge, experience and training in the application of GAAP at the divisional level, and insufficient personnel at our headquarters to provide effective oversight, review of financial transactions and reporting responsibilities of an SEC registrant;

Inadequate controls within the general ledger system to provide a reliable audit trail without adequate compensating controls due to a lack of segregation of duties within the accounting department;

Ineffective or inadequate accounting policies to ensure the proper and consistent application of GAAP throughout the organization;

Ineffective or inadequate controls over the timing of the recognition of revenue at the divisional level; and

Inadequate integration of the financial reporting with respect to the newly acquired division.

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We now believe that one or more of these significant deficiencies existed during the period covered by this report and that we may have had a material weakness in our internal controls over financial reporting during the period covered by this report.

To address the significant deficiencies described above, we have already hired additional personnel into our accounting and finance department and presently intend to take the following remedial actions:

Provide for greater segregation of duties within accounting and finance department;

Obtain more robust accounting software to enable us to more effectively provide a reliable audit trial; and

Disseminate critical accounting policies to the accounting staff and senior managers.

As we continue to evaluate and review our remediation process, we may modify our present intentions and conclude that additional or different actions are would better serve the remediation of our material weakness. We expect that

the remediation will be implemented during 2006. These issues will not be completely remediated until the applicable remedial measure operate for a period of time, such procedures are tested and management has concluded that the procedures are operating effectively.

There was no change in our internal control over financial reporting during the fiscal quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are not a party to any legal proceedings.

ITEM 2. Changes in Securities and Use of Proceeds

During the first Quarter ending March 31, 2005, the Registrant issued 83,330 restricted common shares to SBI, USA as fees for investment banking consulting services. The restricted shares will not be registered under the Securities Act of 1933, as amended (the Act) and will be issued in the reliance upon the exemption from registration provided by section 4(2) of the Act, on the basis that the issuance of these shares do not involve 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 and Reports on Form 8-K

(a) Exhibits

| Exhibit Number | Title of Document |
|-----------------------|---|
| 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 |

(b) Reports on Form 8-K, during the Quarter ended March 31, 2005.

We did not file any Current Reports during the Quarter ended March 31, 2005.

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, Inc.
(Registrant)

Dated: April 11, 2006

By: /s/ Peter R. Solenne
Peter R. Solenne
Chief Executive Officer
Director

Dated: April 11, 2006

By: /s/ Kelly Alberts
Kelly Alberts
President/COO