

IT&E INTERNATIONAL GROUP

Form 10QSB

August 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

x

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

..

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

For the transition period from to

Commission file number 000-50095

IT&E INTERNATIONAL GROUP, INC.

Edgar Filing: IT&E INTERNATIONAL GROUP - Form 10QSB

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

Edgar Filing: IT&E INTERNATIONAL GROUP - Form 10QSB

Delaware

(State of other jurisdiction of incorporation or
organization)

20-4354185

(IRS Employer Identification No.)

4 California Avenue,

Framingham, Massachusetts

(Address of principal executive offices)

01701

(Zip Code)

Issuer's telephone number, including area code: **(508) 416-2600**

Edgar Filing: IT&E INTERNATIONAL GROUP - Form 10QSB

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

Edgar Filing: IT&E INTERNATIONAL GROUP - Form 10QSB

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

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

Common Stock, \$0.001 par value per share, 650,000,000 shares authorized, 60,448,875 issued and outstanding as of June 30, 2006. Preferred Stock, \$0.001 par value per share, 10,000,000 shares authorized, 11,500 issued and outstanding as of June 30, 2006.

Transitional Small Business Disclosure Format (Check one): Yes No

TABLE OF CONTENTS

Edgar Filing: IT&E INTERNATIONAL GROUP - Form 10QSB

| | | |
|-----------------|--|----|
| <u>PART I.</u> | <u>FINANCIAL INFORMATION</u> | 3 |
| <u>Item 1.</u> | <u>Consolidated Financial Statements</u> | |
| | <u>Balance Sheets as of June 30, 2006 (unaudited) and December 31, 2005</u> | 4 |
| | <u>Statements of Operations for the three and six months ended June 30, 2006 (unaudited) and June 30, 2005 (unaudited)</u> | 5 |
| | <u>Statements of Cash Flows for the three and six months ended June 30, 2006 (unaudited) and June 30, 2005 (unaudited)</u> | 6 |
| | <u>Notes to Unaudited Consolidated Financial Statements</u> | 7 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| <u>Item 3.</u> | <u>Controls and Procedures</u> | 18 |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 20 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 20 |
| <u>Item 3.</u> | <u>Defaults upon Senior Securities</u> | 20 |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders</u> | 20 |
| <u>Item 5.</u> | <u>Other Information</u> | 21 |
| <u>Item 6.</u> | <u>Exhibits</u> | 21 |

SIGNATURES
CERTIFICATIONS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND EXHIBITS

As prescribed by Item 310 of Regulation S-B, the unaudited interim financial statements have been prepared to reflect all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim period presented and are of a normal and recurring nature. Our unaudited financial statements for the three and six months ended June 30, 2006, follow.

3

IT&E INTERNATIONAL GROUP, INC.

Consolidated Balance Sheets

| | June 30, 2006 (unaudited) | December 31, 2005 |
|---|---------------------------------|----------------------|
| Cash | \$ 5,441,041 | \$ 6,414,770 |
| Accounts receivable (net of allowance for doubtful accounts of \$90,000 for 2006 and \$75,000 in 2005) | 2,884,355 | 2,989,646 |
| Unbilled revenue | 422,428 | 183,938 |
| Prepaid and other current assets | 220,538 | 181,823 |
| Total Current Assets | 8,968,362 | 9,770,177 |
| Property and equipment, net | 396,436 | 275,263 |
| Deposits | 114,860 | 11,679 |
| Finite life intangibles (net of accumulated amortization of \$198,876 and of \$39,625 in 2006 and 2005, respectively) | 832,873 | 991,375 |
| Goodwill | 3,192,239 | 3,196,813 |
| Total Assets | \$ 13,504,770 | \$ 14,245,307 |
| Accounts payable | \$ 799,697 | \$ 585,590 |
| Accrued payroll and employee benefits | 450,657 | 351,238 |
| Current portion of capital lease obligations | 29,754 | 3,250 |
| Current portion of notes payable to employees | 244,113 | 101,437 |
| Accrued relocation costs to officers | 220,000 | 220,000 |
| Deferred revenue - Initiation fees | 790,115 | 922,484 |
| Customer Advances | 742,277 | 143,520 |
| Deferred rent | 84,629 | 22,670 |
| Other accrued liabilities | 411,311 | 433,745 |
| Total Current Liabilities | 3,772,553 | 2,783,934 |
| Long-term capital lease obligations, less current portion | 52,921 | 12,765 |
| Notes payable to employees, less current portion | 481,154 | 654,384 |
| Total Liabilities | 4,306,628 | 3,451,083 |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, 10,000,000 shares authorized: | | |
| Series D Convertible Preferred stock, \$.001 par value, 16,500 shares authorized 11,500 shares issued and outstanding with a stated value of \$11,500,000 | 8,105,938 | 8,105,938 |
| Common stock, \$.001 par value, 650,000,000 shares authorized, 60,448,875 shares issued and outstanding | 60,449 | 60,449 |
| Convertible warrants | 3,108,944 | 3,108,944 |
| Call option | 170,729 | 285,118 |
| Additional paid-in capital | 2,852,091 | 2,504,427 |
| Retained deficit | (5,100,009) | (3,270,652) |
| Total Equity | 9,198,142 | 10,794,224 |
| Total Liabilities and Capital | \$ 13,504,770 | \$ 14,245,307 |

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

IT&E INTERNATIONAL GROUP, INC.

Consolidated Statements of Operations

(Unaudited)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--|---------------|--------------------------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Service revenue | \$ 4,746,420 | \$ 4,297,356 | \$ 9,490,958 | \$ 8,743,936 |
| Reimbursement revenue | 176,591 | 134,608 | 391,051 | 232,955 |
| Total | 4,923,011 | 4,431,964 | 9,882,009 | 8,976,891 |
| Cost of revenue | 3,469,663 | 3,141,455 | 7,292,585 | 6,254,412 |
| Gross profit | 1,453,348 | 1,290,509 | 2,589,424 | 2,722,479 |
| Operating expenses: | | | | |
| General and administrative | 1,408,242 | 973,440 | 2,751,441 | 1,773,715 |
| Sales and marketing | 451,147 | 470,667 | 906,531 | 701,350 |
| Depreciation and amortization | 112,465 | 25,601 | 222,799 | 42,749 |
| Officer compensation | 393,634 | 242,096 | 651,403 | 448,843 |
| Total Operating Expenses | 2,365,488 | 1,711,804 | 4,532,174 | 2,966,657 |
| Net Operating Loss | (912,140) | (421,295) | (1,942,750) | (244,178) |
| Other Income (Expense) | | | | |
| Interest income | 70,409 | 2,318 | 134,451 | 2,318 |
| Interest expense | (11,669) | (95,067) | (21,057) | (145,784) |
| Loan fee amortization | | (72,281) | | (144,563) |
| Fees on long-term debt | | | | (214,043) |
| Non-cash financing costs | | | | (62,500) |
| Total Other Income (Expense) | 58,740 | (165,030) | 113,394 | (564,572) |
| Loss before income taxes | (853,400) | (586,325) | (1,829,356) | (808,750) |
| Income taxes | | | | |
| Net Loss | \$ (853,399) | \$ (586,325) | \$ (1,829,356) | \$ (808,750) |
| Weighted average number of common shares outstanding-basic and fully-diluted | 60,448,875 | 21,344,198 | 60,448,875 | 19,938,363 |
| Net loss per share-basic and fully-diluted | \$ (0.01) | \$ (0.03) | \$ (0.03) | \$ (0.04) |

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

IT&E INTERNATIONAL GROUP, INC.

Consolidated Statements of Cash Flow

(Unaudited)

| | Six Months Ended | |
|---|-------------------------|----------------------|
| | June 30, 2006 | June 30, 2005 |
| Cash flows from operating activities | | |
| Net loss | \$ (1,829,356) | \$ (808,750) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 64,297 | 42,749 |
| Amortization of finite life intangibles | 158,502 | 144,563 |
| Amortization of deferred rent | 61,959 | (3,110) |
| Stock issued for financing costs | | 62,500 |
| Stock issued for compensation | 233,275 | 200,000 |
| Changes in assets and liabilities | | |
| Accounts receivable, net | 105,291 | 391,770 |
| Unbilled revenue | (238,490) | (85,205) |
| Prepaid and other current assets | (38,715) | (71,370) |
| Deposits | (103,181) | 19,370 |
| Accounts payable | 214,107 | 102,994 |
| Accrued payroll and employee benefits | 99,419 | 290,584 |
| Deferred revenue | 466,388 | |
| Accrued interest and fees owed on a note payable | 4,660 | 23,550 |
| Other accrued liabilities | (27,095) | 23,019 |
| Net cash (used) provided by operating activities | (828,939) | 332,664 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (112,514) | (17,712) |
| Cash flows from financing activities | | |
| Payments on capital lease obligation | (1,721) | (1,233) |
| Proceeds from convertible note payable | | 500,000 |
| Payments on convertible note payable | | (200,000) |
| Proceeds from exercise of warrants | | 1,800 |
| Payments on notes payable to employees | (30,555) | |
| Net cash (used) provided by financing activities | (32,276) | 300,567 |
| Net (decrease) increase in cash and cash equivalents | (973,729) | 615,519 |
| Cash and cash equivalents, beginning of period | 6,414,770 | 402,779 |
| Cash and cash equivalents, end of year | \$ 5,441,041 | \$ 1,018,298 |
| Supplemental disclosures: | | |
| Interest paid | 21,057 | 50,721 |
| Income taxes paid | | |

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

IT&E INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. **DESCRIPTION OF BUSINESS**

NATURE OF BUSINESS

IT&E International Group, Inc. was organized under the name Clinical Trials Assistance Corporation (Clinical Trials) by the filing of Articles of Incorporation with the Secretary of State of the State of Nevada on April 22, 2002. On June 14, 2004, Clinical Trials acquired IT&E International Corporation and amended its Articles of Incorporation to change the corporate name from Clinical Trials to IT&E International Group. On March 2, 2006, with the written consent of holders of the majority of our shares of common stock, we reincorporated into Delaware and filed a Certificate of Incorporation to change our corporate name to IT&E International Group, Inc. IT&E International Group, Inc. and its consolidated subsidiaries are referred to throughout this report as we, us, our, and the Company.

We are a life sciences organization focused on providing our clients with services and solutions in the drug development process, clinical research and regulatory compliance. We serve a variety of clients, including those in private industry, public institutions, research facilities and the government. In November 2005, we acquired the assets of Millennix Inc. (Millennix), a contract research organization (CRO) that provides comprehensive clinical research services of Phase I through Phase IV clinical tri