INTERNATIONAL ENERGY, INC.
Form 10-Q
August 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2010

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

For the transition period from _____ to _____

Commission File Number 333-52040

INTERNATIONAL ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada	**98-0195748**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1200 G Street, NW, Suite 800	
Washington, District of Columbia	**20005**
(Address of principal executive offices)	(Zip Code)

(800) 676-1006

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o Not Applicable T

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer	
Non-accelerated filer (Do not check if a smaller reporting company)		Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in 12b-2 of the Exchange Act.)

Yes T No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 42,249,166 shares of Common Stock, par value $0.001, were outstanding on August 12, 2010.

INTERNATIONAL ENERGY, INC.
FORM 10-Q
For the Quarterly Period Ended June 30, 2010
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PART II OTHER INFORMATION

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

INTERNATIONAL ENERGY, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND MARCH 31, 2010
(Expressed in U.S. Dollars)
(Unaudited)

		Ju
		2
ASSETS		
alents	$	
d other current assets		
	$	
LIABILITIES AND STOCKHOLDERS' EQUITY		
	$	
ies		
ontingencies		
STOCKHOLDERS' EQUITY		
1 par value; 1,000,000 shares authorized, no shares issued and outstanding at June 30, 2010 and March 31, 2010		
01 par value; 100,000,000 shares authorized, 42,249,166 shares issued and outstanding at June 30, 2010 and March 31, 2010		
pital		3,
during the development stage		(2,9
quity		
tockholders' equity	$	

(The accompanying notes are an integral part of these consolidated financial statements)

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INTERNATIONAL ENERGY, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009
AND FROM INCEPTION (NOVEMBER 6, 1998) TO JUNE 30, 2010
(Expressed in U.S. Dollars)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	From Inception (November 6, 1998) to June 30, 2010
Revenue	$ -	$ -	$ -
Operating expenses			
Investor relations	1,125	7,108	801,008
Director fees - related party	11,029	13,779	309,582
Research and development	-	29,835	255,498
Professional fees	36,474	58,185	577,905
Salaries and benefits	5,645	28,400	1,208,422
Website fees - related party	-	-	48,050
Write off of oil, gas and mineral leases	-	-	112,000
Other operating expenses	4,737	11,530	350,624
Total operating expenses	59,010	148,837	3,663,089
Operating loss	(59,010)	(148,837)	(3,663,089)
Other income (expense)			
Interest income	-	-	34,713
Interest expense	-	-	(77,480)
Change in fair value of warrant liability	-	(102,942)	65,635
Loss on disposal of fixed assets	-	-	(9,800)
Foreign exchange gain (loss)	-	(15)	2,929
Total other income (expense)	-	(102,957)	15,997
Net loss	$ (59,010)	$ (251,794)	$ (3,647,092)
Net loss per common share - basic and diluted	$ (0.00)	$ (0.01)	
Weighted average number of common shares outstanding - basic and diluted	42,249,166	42,249,166	

(The accompanying notes are an integral part of these consolidated financial statements)

INTERNATIONAL ENERGY, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FROM INCEPTION (NOVEMBER 6, 1998) TO JUNE 30, 2010
(Expressed in U.S. Dollars)
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Common Stock Issuable	Deficit Accumulated During the Development Stage	Total Stockho Equity (Defi
tion, November 6, 1998	-	$ -	$ -	$ -	$ -	
non stock issued at $0.001 per share lated party for management services	20,000,000	20,000	(15,000)	-	-	
non stock issued for cash at $0.25 per during fiscal year ended March 31, 1999	1,360,000	1,360	83,640	-	-	8
inception (November 6, 1998) rch 31, 1999	-	-	-	-	(7,470)	(7
ce, March 31, 1999	21,360,000	21,360	68,640	-	(7,470)	8
year ended March 31, 2000	-	-	-	-	(16,185)	(16
ce, March 31, 2000	21,360,000	21,360	68,640	-	(23,655)	6
year ended March 31, 2001	-	-	-	-	(171,793)	(17
ce, March 31, 2001	21,360,000	21,360	68,640	-	(195,448)	(10
non stock issued for cash at $0.10 per October 17, 2001	10,000,000	10,000	240,000	-	-	25
year ended March 31, 2002	-	-	-	-	(144,541)	(14
ce, March 31, 2002	31,360,000	31,360	308,640	-	(339,989)	
non stock issued to a related for services rendered at $0.08 per August 5, 2002	2,402,500	2,403	45,647	-	-	4
non stock issued to a related for services rendered at $0.08 per August 5, 2002	1,200,000	1,200	22,800	-	-	2
llation of previously issued on stock, February 4, 2003	(1,200,000)	(1,200)	(22,800)	-	-	(2
year ended March 31, 2003	-	-	-	-	(149,933)	(14
ce, March 31, 2003	33,762,500	33,763	354,287	-	(489,922)	(10
year ended March 31, 2004	-	-	-	-	(70,132)	(70
ce, March 31, 2004	33,762,500	33,763	354,287	-	(560,054)	(17
year ended March 31, 2005	-	-	-	-	(59,494)	(59

ce, March 31, 2005	33,762,500	33,763	354,287	-	(619,548)	(23
non stock issued upon exercise of nts, at $0.05 per share, June 9, 2005 une 30, 2005	3,120,000	3,120	152,880	-	-	15
non stock issued upon exercise of option, at $0.13 per share, er 7, 2005	50,000	50	6,450	-	-	
based compensation expense	-	-	785,536	-	-	78
year ended March 31, 2006	-	-	-	-	(842,155)	(84
ce, March 31, 2006	36,932,500	36,933	1,299,153	-	(1,461,703)	(12
based compensation expense	-	-	54,443	-	-	5
year ended March 31, 2007	-	-	-	-	(224,862)	(22
ce, March 31, 2007	36,932,500	36,933	1,353,596	-	(1,686,565)	(29
non stock issuable in March 2008	-	-	-	1,259,000	-	1,25
year ended March 31, 2008	-	-	-	-	(411,934)	(41
ce, March 31, 2008	36,932,500	36,933	1,353,596	1,259,000	(2,098,499)	55
non stock and warrants issued for cash acement fees in April 2008	4,100,000	4,100	2,395,900	(1,259,000)	-	1,14
based compensation expense	-	-	12,235	-	-	1
non stock issued upon exercise of nts, at $0.60 per share in May 2008	1,216,666	1,216	728,784	-	-	73
year ended March 31, 2009	-	-	-	-	(1,227,825)	(1,22
ce, March 31, 2009	42,249,166	42,249	4,490,515	-	(3,326,324)	1,20
based compensation expense	-	-	19,758	-	-	1
lative adjustment upon adoption SC 815-40	-	-	(749,667)	-	684,032	(6
year ended March 31, 2010	-	-	-	-	(261,758)	(26
ce, March 31, 2010	42,249,166	42,249	3,760,606	-	(2,904,050)	89
based compensation expense	-	-	3,529	-	-	
three months ended June 30, 2010	-	-	-	-	(59,010)	(5
ce, June 30, 2010	42,249,166	$ 42,249	$ 3,764,135	$ -	$ (2,963,060)	$ 84

(The accompanying notes are an integral part of these consolidated financial statements)

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INTERNATIONAL ENERGY, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009
AND FROM INCEPTION (NOVEMBER 6, 1998) TO JUNE 30, 2010
(Expressed in U.S. Dollars)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	From Inception (November 6, 1998) to June 30, 2010
Cash flows from operating activities			
Net loss	$ (59,010)	$ (251,794)	$ (3,647,092)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	-	-	6,268
Common stock issued for services	-	-	53,050
Change in fair value of warrant liability	-	102,942	(65,635)
Stock based compensation expense	3,529	6,279	875,501
Loss on disposal of fixed assets	-	-	9,800
Write off of oil, gas and mineral leases	-	-	112,000
Change in operating assets and liabilities:			
(Increase) decrease in prepaid expenses and other current assets	(4,686)	11,751	(4,686)
Increase in accounts payable	9,927	26,452	24,182
Net cash used in operating activities	(50,240)	(104,370)	(2,636,612)
Cash flows from investing activities			
Purchase of property and equipment	-	-	(16,068)
Purchase of oil, gas and mineral leases	-	-	(112,000)
Net cash used in investing activities	-	-	(128,068)
Cash flows from financing activities			
Proceeds from issuance of common stock and warrants	-	-	3,627,500
Proceeds from loans from related party	-	-	510,000
Repayment of loans from related party	-	-	(510,000)
Net cash provided by financing activities	-	-	3,627,500
Increase (decrease) in cash and cash equivalents	(50,240)	(104,370)	862,820
Cash and cash equivalents at beginning of period	913,060	1,248,746	-
Cash and cash equivalents at end of period	$ 862,820	$ 1,144,376	$ 862,820
Supplemental disclosure of cash flow information:			
Interest paid in cash	$ -	$ -	$ 77,480
Income tax paid in cash	$ -	$ -	$ -
Non-cash investing and financing activities:			
Issuance of common stock and warrants for commission	$ -	$ -	$ 60,000

(The accompanying notes are an integral part of these consolidated financial statements)

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INTERNATIONAL ENERGY, INC.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Expressed in U.S. dollars)

(Unaudited)

Note 1. Organization and Description of Business

International Energy, Inc. (the Company) was incorporated under the laws of the State of Nevada on November 6, 1998, under the name e.Deal.net, Inc., with an authorized capital of 100,000,000 shares of common stock, par value of $0.001 per share, and 1,000,000 preferred stock, par value of $0.01. On June 20, 2005, the Company amended its Articles of Incorporation to effect a change of name to International Energy, Inc.

On June 9, 2005, the Company incorporated two wholly owned subsidiaries; International Energy Corp. and e.Deal Enterprises Corp. Both subsidiaries are incorporated under the laws of the State of Nevada.

The Company was initially incorporated for the purpose of providing a platform for providing automotive information to, and connecting, buyers and sellers of pre-owned automobiles through the Internet. The Company was not successful in its efforts and during 2005, started winding down its online automotive business activities. In November 2006, the Company ceased providing online automotive information through e.Deal Enterprises Corp. The assets and liabilities, the results of operations, and cash flows related to e.Deal Enterprises Corp. were not classified as discontinued operations as the amounts were not significant.

Through International Energy Corp., the Company was involved in the investigation, acquisition and exploration for petroleum and natural gas in various parts of the United States and Canada. From November 2006 through August 31, 2007, the Company focused solely on petroleum and natural gas exploration. The Company acquired exploration rights under land leases located in the State of Utah. The Company s proposed exploration program was unable to exploit these leases due to a lack of adequate drilling rigs and equipment as well as qualified personnel. The Company determined that its primary focus should remain on energy and therefore, beginning in September 2007, the Company redirected its focus from oil and gas exploration to the acquisition, development and commercialization of alternative renewable energy technologies. The assets and liabilities, the results of operations, and cash flows related to petroleum and natural gas exploration were not classified as discontinued operations as the amounts were not significant.

On September 17, 2007, the Company commenced the development and acquisition of alternative renewable energy technologies through its wholly owned subsidiary, International Energy Corp., by entering into a research agreement with The Regents of the University of California (UOC) (the UOC Research Agreement) in the area of algal biochemistry and photosynthesis aiming to develop protocols for the growth of microalgal cultures and for the generation of long chain liquid hydrocarbons. The contract was for a period of two years, ending on September 16, 2009. The Company could negotiate with UOC for a license at commercially reasonable royalty rates and license fees to commercialize the related products. The Company had the right to apply for a patent on any invention made through the research. The Company agreed to pay a total of $238,680 to UOC for the support of the research, payable in equal installments of $29,835 each on a quarterly basis.

The Company reviewed research outcomes from the UOC Research Agreement, which expired on September 16, 2009 and determined that it was not in the Company s best interest to advance its research and development. Accordingly, the Company did not renew the UOC Research Agreement. The Company is undertaking efforts to identify new commercial opportunities.

Note 2. Going Concern Uncertainties

The Company is a development stage company, has not generated any revenues, has an accumulated deficit of $2,963,060 as of June 30, 2010 and does not have positive cash flows from operating activities. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern, which is dependent upon the Company s ability to establish itself as a profitable business.

The Company faces all the risks common to companies that are in the development stage, including under capitalization and uncertainty of funding sources, high initial expenditure levels, uncertain revenue streams, and difficulties in managing growth. Additionally, the Company has expended a significant amount of cash in developing its technologies. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management recognizes that in order to meet the Company s capital requirements, and continue to operate, additional financing will be necessary. The Company expects to raise additional funds through private or public equity investments in order to support existing operations and expand the range and scope of its business operations. The Company will seek access to private or public equity but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. Furthermore, there is no assurance that the net proceeds received from any successful financing arrangement will be sufficient to cover cash requirements of the Company s operations. If the Company is unable to raise additional capital or generate positive cash flow, it is unlikely that the Company will be able to continue as a going concern.

The Company s consolidated financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

Note 3. Presentation of Interim Information

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (of a normal recurring nature) considered necessary for a fair presentation of the financial statements have been included. Operating results for the three months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ended March 31, 2011 or any other interim period. For further information, refer to the financial statements and notes thereto included in the Company s 2010 Annual Report on Form 10-K for the year ended March 31, 2010 filed with the Securities and

Exchange Commission.

Note 4. Summary of Significant Accounting Policies

The preparation of the Company s consolidated financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by management s application of accounting policies. Critical accounting policies for the Company include accounting for research and development costs and accounting for stock-based compensation. On an on-going basis, the Company evaluates its estimates. Actual results and outcomes may differ materially from these estimates and assumptions.

Research and Development

Research and development costs represent costs incurred to develop the Company s technology, including salaries and benefits for research and development personnel, allocated overhead and facility occupancy costs, supplies, equipment purchase and repair and other costs. Research and development costs are expensed when incurred, except for nonrefundable advance payments for future research and development activities which are capitalized and recognized as expense as the related services are performed.

During the three months ended June 30, 2010 and 2009, the Company incurred $0 and $29,835 on research and development activities. From inception (November 6, 1998) to June 30, 2010 the Company incurred $255,498 on research and development activities.

Stock-based Compensation

The Company measures all stock-based compensation awards using a fair value method on the date of grant and recognizes such expense in its consolidated financial statements over the requisite service period. The Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding the warrant and option lives, expected volatility, and risk free interest rates. See Note 8. Stock Options and Note 9. Warrants for additional information on the Company s stock-based compensation plans.

Fair Value of Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value.

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Company utilizes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access. The Company has no assets or liabilities valued with Level 1 inputs.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. The Company has no assets or liabilities valued with Level 2 inputs.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Liabilities valued with Level 3 inputs are described in Note 9. Warrants.

The carrying value of cash and cash equivalents, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of the Company s Series B Warrants was $0 at June 30, 2010, since they all expired on April 17, 2010 (see Note 9. Warrants). Management is of the opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures, which amends the disclosure requirements related to recurring and nonrecurring fair value measurements The guidance requires disclosure of transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers and information on purchases, sales, issuance, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The guidance is effective for annual and interim reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual and interim periods beginning after December 15, 2010. The Company adopted this guidance at the beginning of its fourth quarter of fiscal 2010, except for the Level 3 reconciliation disclosures on the roll forward activities, which it will adopt at the beginning of its fourth quarter of fiscal 2011. Other than requiring additional disclosures, the adoption of this standard did not and will not have a material impact on the Company s consolidated financial position and results of operations.

Recent Accounting Pronouncements Not Yet Adopted

The Company reviews new accounting standards as issued. Although some of these accounting standards issued or effective after the end of the Company s previous fiscal year may be applicable to the Company, it expects that none of the new standards will have a significant impact on its consolidated financial statements.

Note 5. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common and dilutive common equivalent shares outstanding during the period. All per share and per share information are adjusted retroactively to reflect stock splits and changes in par value, when applicable.

During the three months ended June 30, 2010 and 2009, the Company recorded a net loss. Therefore, the issuance of shares of common stock from the exercise of stock options or warrants would be anti-dilutive and basic and diluted net loss per share are the same for those periods. Excluded from the computation of diluted net loss per share for the three months ended June 30, 2010 and 2009, because their effect would be antidilutive, are stock options and warrants to acquire 8,050,000 and 10,933,334 shares of common stock with weighted-average exercise prices of $0.14 and $0.26 per share, respectively.

For purposes of earnings per share computations, shares of common stock that are issuable at the end of a reporting period are included as outstanding.

Following is the computation of basic and diluted net loss per share for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30,	
	2010	2009
Basic and Diluted Net Loss Per Common Share Computation		
Numerator: net loss	$ (59,010)	$ (251,794)
Denominator:		

Weighted average number of common shares outstanding		42,249,166		42,249,166
Basic and diluted net loss per common share	$	(0.00)	$	(0.01)

Note 6. UOC Research Agreement

On September 17, 2007, the Company, through its wholly owned subsidiary, International Energy Corp., entered into the UOC Research Agreement in the area of algal biochemistry and photosynthesis aiming to develop protocols for the growth of microalgal cultures and for the generation of long chain liquid hydrocarbons. The contract was for a period of two years, ending on September 16, 2009. The Company could negotiate with UOC for a license at commercially reasonable royalty rates and license fees to commercialize the related products. The Company had the right to apply for a patent on any invention made through the research. The Company agreed to pay a total of $238,680 to UOC for the support of the research, payable in equal installments of $29,835 each on a quarterly basis.

As of June 30, 2010, the Company has paid $238,680 pursuant to the UOC Research Agreement, $5,000 for the right to evaluate the technology underlying the UOC Research Agreement, license fees and potential patent rights, and $10,958 for reimbursement of other out-of-pocket costs. Of the total $254,638 paid to UOC, $0 and $29,835 is included in research and development expense for the three months ended June 30, 2010 and 2009.

Note 7. Capital Stock

Preferred Stock

At June 30, 2010, there were 1,000,000 shares of preferred stock (par value of $0.01 per share) authorized, of which no shares were issued and outstanding. The Board of Directors has the authority to divide the preferred stock into series and to fix and determine the relative rights and preferences of the shares of any such series so established to the full extent permitted by the laws of the State of Nevada and the Articles of Incorporation. Holders of the preferred stock are entitled to one vote for each share held of record. Holders of the preferred stock vote with holders of the common stock as one class.

Common Stock

On April 17, 2008, the Company completed a $2,400,000 self directed private placement (the 2008 Private Placement). The 2008 Private Placement consisted of the sale of 4,000,000 units (the "Units") at a price of $0.60 per Unit. Each Unit consisted of one share (collectively Unit Shares) of the Company s common stock and one Series B Warrant to purchase a share of common stock at $0.60 per share for a period of two years from the date of issuance. In connection with the 2008 Private Placement, the Company agreed to file a registration statement for the purpose of registering the Unit Shares and the shares issuable upon the exercise of the Series B Warrants, for resale by the Investors. On July 17, 2009, the Company received a Notice of Effectiveness from the Securities and Exchange Commission (the SEC) registering the Unit Shares and additional shares held by certain selling stockholders in private transactions.

The number of shares issuable upon exercise of the Series B Warrants and the exercise price of the Series B Warrants were adjustable in the event of stock splits, combinations and reclassifications, but not in the event of the issuance by the Company of additional securities, unless such issuance was at a price per share which was less than the then applicable exercise price of the Series B Warrants (Dilutive Issuance), in which event then the exercise price would have been reduced and only reduced to equal the lower issuance price and the number of shares issuable upon exercise thereof would have increased such that the aggregate exercise price payable thereunder, after taking into account the decrease in the exercise price, would have been equal to the aggregate exercise price prior to such adjustment. The potential adjustment to the Series B Warrants exercise price and number of underlying shares of common stock resulted in a settlement amount that did not equal the difference between the fair value of a fixed number of the

Company s common stock and a fixed exercise price. Accordingly, the Series B Warrants were not considered indexed to the Company s own stock and therefore needed to be accounted for as a derivative. The Series B Warrants all expired on April 17, 2010, none of which were exercised. As of their expiration date, the Company had not sold any shares of common stock or common stock equivalents that would result in an adjustment to the exercise price or number of shares of common stock underlying the Series B Warrants. See Note 9. Warrants.

In connection with the 2008 Private Placement, the Company paid a commission of 100,000 Units (the Commission Units) to one registered broker dealer. The Commission Units did not have any registration rights but otherwise had the same terms and conditions as the Units.

At the time of grant, the fair value of the Series B Warrants as calculated using the Black-Scholes model was $5,330,000. The proceeds from the 2008 Private Placement allocated to the warrants were $1,066,000.

Note 8. Stock Options

On September 30, 2002, the stockholders of the Company approved its 2002 Incentive Stock Plan (the 2002 Plan), which has 20,000,000 shares reserved for issuance thereunder, all of which were registered under Form S-8 on August 24, 2005. The 2002 Plan provides shares available for options granted to employees, directors and others.

The options granted to employees under the Company s 2002 Plan generally vest over one to five years or as otherwise determined by the plan administrator. Options to purchase shares expire no later than ten years after the date of grant.

The Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding the warrant and option lives, expected volatility, and expected forfeiture rates, all of which impact the fair value of the stock option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a bond with a similar term. The Company does not anticipate declaring dividends in the foreseeable future. Volatility is calculated based on the historical weekly closing stock prices for the same period as the expected life of the option. The Company uses the simplified method for determining the expected term of its plain vanilla stock options. The Company recognizes compensation expense for only the portion of stock options that are expected to vest. Therefore, the Company applies an estimated forfeiture rate that is derived from historical employee termination data and adjusted for expected future employee turnover rates. To date, the Company has experienced minimal forfeitures, which did not impact the fair value of the stock option grants. If the actual number of forfeitures differs from those estimated by the Company, additional adjustments to compensation expense may be required in future periods.

A summary of the Company s stock option activity for the three months ended June 30, 2010 and related information follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (1)	Aggregate Intrinsic Value (1)
Outstanding at March 31, 2010 and June 30, 2010	8,050,000	$ 0.14	5.0 years	$ -
Exercisable at June 30, 2010	7,970,000	$ 0.13	5.0 years	$ -
Available for grant at June 30, 2010	11,900,000			

(1) The weighted average remaining contractual term and aggregate intrinsic value are as of June 30, 2010.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for all in-the-money options (i.e. the difference between the Company s closing stock price on the last trading day of its first quarter of fiscal year 2011 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. The intrinsic value of the options changes based on the fair market value of the Company s common stock.

During the three months ended June 30, 2010 and 2009 the Company recorded stock compensation expense of $3,529 and $6,279 for the amortization of the fair value of stock options previously granted and vesting over time which is included in director fees related party.

As of June 30, 2010, the Company had $19,478 of total unrecognized compensation expense related to unvested stock options which is expected to be recognized over a period of 3.5 years.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2010:

	Stock Options Outstanding			Stock Options Exercisable		
Excercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.13	7,950,000	5.0	$ 0.13	7,950,000	5.0	$ 0.13
0.40	50,000	8.3	0.40	10,000	8.3	0.40
0.83	50,000	8.2	0.83	10,000	8.2	0.83
$0.13-$0.83	8,050,000	5.0	$ 0.14	7,970,000	5.0	$ 0.13

The Company does not repurchase shares to fulfill the requirements of options that are exercised. Further, the Company issues new shares when options are exercised.

Note 9. Warrants

On April 17, 2008, the Company completed the 2008 Private Placement (see Note 7. Capital Stock). Pursuant to the 2008 Private Placement and payment of a commission to a broker dealer, the Company issued 4,100,000 Series B Warrants, each to purchase a share of common stock at $0.60 per share, expiring on April 17, 2010.

On April 17, 2010, the remaining 2,883,334 Series B Warrants expired unexercised. As of June 30, 2010, there were no Series B Warrants outstanding.

Warrant Liability

On April 1, 2009, the Company adopted guidance which is now part of ASC 815-40, *Contracts in Entity s Own Equity (*ASC 815-40). The Company determined that its Series B Warrants contained a Dilutive Issuance provision (see Note 7. Capital Stock: Common Stock). As a result, the Company reclassified 2,883,334 of its Series B Warrants to warrant liability, resulting in a cumulative adjustment to accumulated deficit as of April 1, 2009 of $684,032.

The Company s Series B Warrants were considered derivative financial liabilities and were therefore required to be adjusted to fair value each quarter. In determining the fair value of its warrant liability, the Company utilized level 3 inputs in a three-tier hierarchy. Level 3 valuations are based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Please refer to Note 4. Summary of Significant Accounting Policies.

At March 31, 2010, the Company determined that the fair value of the 2,883,334 outstanding Series B Warrants was $0, substantially due to the shortness of their remaining term. Since all 2,883,334 Series B Warrants expired on April 17, 2010, their fair value at June 30, 2010 was $0. Accordingly, the Company did not record a non-cash gain or loss during the three months ended June 30, 2010. The Company recorded a non-cash loss related to the Series B Warrants of $102,942 during the three months ended June 30, 2009.

Note 10. Related Party Transactions

Director fees

Non-employee directors receive $2,500 per quarter for their services as directors.

Director fees for both of the three month periods ended June 30, 2010 and 2009 include fees earned of $7,500. Additionally, the Company recorded stock compensation expense of $3,529 and $6,279 for the three months ended June 30, 2010 and 2009 for stock options previously granted and vesting over time.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Note 11. Termination of Oil and Gas Joint Venture

On June 13, 2005, the Company entered into a Joint Venture Agreement with Reserve Oil and Gas, Inc. for the purpose of purchasing oil and gas leases, drilling, completing oil and gas wells and the resale of acquired leases. The Company paid cash $112,000 to purchase four leases totaling 312.7 acres in Sevier County, Utah. The Company abandoned the properties and wrote off the cost of $112,000 on March 31, 2007. On June 11, 2007, the Company terminated the Joint Venture Agreement with Reserve Oil and Gas, Inc.

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

Forward-Looking Statements

This Report on Form 10-Q contains forward-looking statements which involve assumptions and describe our future plans, strategies, and expectations, and are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend, or project or the negative of these words or other variations on these words or comparable terminology. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished.

Such forward-looking statements include statements regarding, among other things, (a) the potential markets for our technologies, our potential profitability, and cash flows (b) our growth strategies (c) expectations from our ongoing sponsored research and development activities (d) anticipated trends in the technology industry, (e) our future financing plans and (f) our anticipated needs for working capital. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found under Management s Discussion and Analysis of Financial Condition and Results of Operations as well as in this Form 10-Q generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various and matters described in this Form 10-Q generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. In addition to the information expressly required to be included in this filing, we will provide such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

Although forward-looking statements in this report reflect the good faith judgment of our management, forward-looking statements are inherently subject to known and unknown risks, business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the Securities and Exchange Commission which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

The following Management s Discussion and Analysis (MD&A) is intended to help the reader understand our consolidated results of operations and financial condition. The MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements included in this Form 10-Q.

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosures. We review our estimates on an ongoing basis.

Overview

We were incorporated under the laws of the State of Nevada on November 6, 1998, under the name e.Deal.net, Inc., On June 20, 2005, we amended our Articles of Incorporation to effect a change of name to International Energy, Inc.

On June 9, 2005, we incorporated two wholly owned subsidiaries; International Energy Corp. and e.Deal Enterprises Corp. Both subsidiaries are incorporated under the laws of the State of Nevada.

International Energy Corp., through a research agreement (the UOC Research Agreement) with The Regents of the University of California (UOC) was developing leading edge technologies for the production of biofuels derived directly from the photosynthesis of green microalgae, which can accumulate up to 30% of their biomass in the form of valuable biofuels. We were seeking to develop biofuels from the conversion of water and carbon dioxide into useful long-chain liquid hydrocarbons from the photosynthesis of unicellular microalgae. We have reviewed research outcomes from the UOC Research Agreement, which expired on September 16, 2009 and determined that it is not in our best interest to advance our research and development. Accordingly, we did not renew the UOC Research Agreement. We are undertaking efforts to identify new commercial opportunities.

We do not expect to generate any revenues for the foreseeable future and expect to continue incurring losses.

Because we are a smaller reporting company, we are not required to make certain disclosures otherwise required to be made in a Form 10-Q.

UOC Research Agreement

On September 17, 2007, our wholly owned subsidiary, International Energy Corp., entered into the UOC Research Agreement. The contract was for a period of two years, ending on September 16, 2009. We could negotiate with UOC for a license at commercially reasonable royalty rates and license fees to commercialize the related products. We had the right to apply for a patent on any invention made through the research. We agreed to pay a total of $238,680 to UOC for the support of the research, payable in equal installments of $29,835 each on a quarterly basis.

As of June 30, 2010, we have paid $238,680 pursuant to the UOC Research Agreement, $5,000 for the right to evaluate the technology underlying the UOC Research Agreement, license fees and potential patent rights, and $10,958 for reimbursement of other out-of-pocket costs. Of the total $254,638 paid to UOC, $0 and $29,835 is included in research and development expense for the three months ended June 30, 2010 and 2009.

Results of Operations

Operating Expenses

A summary of our operating expenses for the three months ended June 30, 2010 and 2009 was as follows:

		Three Months Ended June 30, 2010	2009	Increase / (Decrease)	Percentage Change
Operating expenses					
Investor relations	$	1,125$	7,108$	(5,983)	(84)%
Director fees - related party		11,029	13,779	(2,750)	(20)
Research and development		-	29,835	(29,835)	(100)
Professional fees		36,474	58,185	(21,711)	(37)
Salaries and benefits		5,645	28,400	(22,755)	(80)
Other operating expenses		4,737	11,530	(6,793)	(59)
Total operating expenses	$	59,010$	148,837$	(89,827)	(60)%

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Investor relations

Investor relations costs represent fees paid to publicize our technology within our industry and the investment community with the purpose of increasing company recognition and name branding.

Effective April 15, 2009, we entered into a one-year Shareholder Communication Services Agreement (the Shareholder Communications Agreement) with a third party consultant to provide shareholder communication and related administrative services. In accordance with the terms of the Shareholder Communications Agreement, we pay the third party consultant $375 per month. The Shareholder Communications Agreement was renewed (with the same terms) for another one-year term, expiring April 15, 2011. Accordingly, we incurred $1,125 and $936 during the three months ended June 30, 2010 and 2009 pursuant to the Shareholder Communications Agreement.

Effective October 1, 2008, we entered into a one-year Market Access Services Agreement (the Market Agreement) with an investor relations firm. Pursuant to the terms of the Market Agreement, we paid $1,900 per month for investor and public relations, corporate branding and corporate image services. The Market Agreement was not renewed. We incurred $5,700 during the three months ended June 30, 2009 pursuant to the Market Agreement.

Director fees related party

Non-employee directors receive $2,500 per quarter for their services as directors.

Director fees for both of the three month periods ended June 30, 2010 and 2009 include fees earned of $7,500. Additionally, we recorded stock compensation expense of $3,529 and $6,279 for the three months ended June 30, 2010 and 2009 for stock options previously granted and vesting over time.

Research and development

Research and development represent costs incurred to develop our technology pursuant to our former research agreement with UOC. The UOC Research Agreement included salaries and benefits for research and development personnel, allocated overhead and facility occupancy costs, supplies, equipment purchase and repair and other costs.

Research and development expense for the three months ended June 30, 2009 is comprised entirely of payments made pursuant to the UOC Research Agreement.

Professional fees

Professional fees substantially consist of accounting, audit, tax and legal fees, and Edgar filing fees.

Professional fees were $36,474 during the three months ended June 30, 2010, a decrease of $21,711, from $58,185 for the three months ended June 30, 2009 substantially due to decreases in accounting related fees of approximately $6,500 and legal fees of approximately $15,000. The decrease in accounting related fees and legal fees from the prior year is the result of us filing amendments to our Form S-1 and a response to an SEC comment letter in the prior year as well as an increase in the utilization of legal counsel during the prior year for the preparation and review of the required filings with the Securities and Exchange Commission (the SEC) and related correspondence.

Salaries and benefits

Salaries and benefits for the three months ended June 30, 2010 and 2009 consists entirely of amounts paid to and on behalf of Mr. Charles Bell, our President, Chief Executive Officer, Chief Financial Officer and one of our directors. Until September 1, 2009, Mr. Bell s annual compensation was $100,000. Effective September 1, 2009, Mr. Bell no longer devoted his full time efforts to the Company. However, he still retains all aforementioned executive officer positions and remains one of our directors. Since Mr. Bell s hours were curtailed his annual compensation was reduced to $18,000, effective September 1, 2009.

Other operating expenses

Other operating expenses include travel and entertainment, rent, telephone, office supplies, postage and printing, information technology related fees and other administrative costs.

Other operating expenses were $4,737 during the three months ended June 30, 2010, a decrease of $6,793, from $11,530 for the same period in 2009 substantially due to decreases in travel and entertainment related expense of approximately $4,000 and rent of $3,800. During the prior year, we publicized our technology within the investor community and market place, which required significant travel. The decrease in rent is substantially due to the reduction of the size of the corporate office space that we lease in Washington, DC. Effective August 1, 2009, rent for this facility was reduced from $1,100 per month to $219 per month.

Other Expense

A summary of our other expense for the three months ended June 30, 2010 and 2009 was as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase / (Decrease)
Other expense			
Change in fair value of warrant liability	$ -	$ 102,942	$ (102,942)
Foreign exchange loss	-	15	(15)
Total other expense	$ -	$ 102,957	$ (102,957)

Change in fair value of warrant liability

On April 1, 2009, we adopted guidance which is now part of ASC 815-40, *Contracts in Entity s Own Equity* (ASC 815-40). We determined that our Series B Warrants contained a Dilutive Issuance provision (see Note 7. Capital Stock and Note 9. Warrants in the notes to the consolidated financial statements). As a result, we reclassified 2,883,334 of our Series B Warrants to warrant liability, resulting in a cumulative adjustment to accumulated deficit as of April 1, 2009 of $684,032.

Our Series B Warrants were considered derivative liabilities and were therefore required to be adjusted to fair value each quarter. We valued our warrant liability using a Black-Scholes model. Our stock price, remaining term of the Series B Warrants and the volatility of our stock all impacted the fair value of our Series B Warrants.

At March 31, 2010, we determined that the fair value of the 2,883,334 outstanding Series B Warrants was $0, substantially due to the shortness of their remaining term. Since all 2,883,334 Series B Warrants expired on April 17, 2010, their fair value at June 30, 2010 was $0. Accordingly, we did not record a non-cash gain or loss during the three months ended June 30, 2010. We recorded a non-cash loss related to the Series B Warrants of $102,942 during the three months ended June 30, 2009.

Liquidity and Capital Resources

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern. We have incurred cumulative losses of $2,963,060 through June 30, 2010 and do not have positive cash flows from operating activities. Due to the "start up" nature of our business, we expect to incur losses as we continue development of our technologies and expand. We face all the risks common to development stage companies, including under capitalization and uncertainty of funding sources, high initial expenditure levels, uncertain revenue streams, and difficulties in managing growth. These conditions raise substantial doubt about our ability to continue as a going concern. Management recognizes that in order to meet our capital requirements, and continue to operate, additional financing will be necessary. We expect to raise additional funds through private or public equity investments in order to expand the range and scope of our business operations. We will seek access to private or public equity but there is no assurance that such additional funds will be available for us to finance our operations on acceptable terms, if at all. If we are unable to raise additional capital or generate positive cash flow, it is unlikely that we will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our principal source of liquidity is cash in the bank. Our future funding requirements will depend on numerous factors, including: the time and investment required to invest in our research and development project; to recruit and train qualified management personnel; and our ability to compete against other, better capitalized corporations in similar businesses.

At June 30, 2010, we had cash and cash equivalents of $862,820. We have financed our operations primarily from funds received pursuant to the 2008 Private Placement completed in April 2008, raising gross proceeds of $2,400,000 and cash received from the exercise of warrants. Please refer to Note 7. Capital Stock in the notes to the consolidated financial statements.

Net cash used in operating activities was $50,240 for the three months ended June 30, 2010, compared to net cash used of $104,370 for the three months ended June 30, 2009. The decrease in cash used in operating activities of $54,130 was substantially due to decreases in investor relations, professional fees, and salaries and benefits. Please refer to Results of Operations above for discussion regarding the decreases in these expenses.

Related Party Transactions

Director fees

Non-employee directors receive $2,500 per quarter for their services as directors.

Director fees for both of the three month periods ended June 30, 2010 and 2009 include fees earned of $7,500. Additionally, we recorded stock compensation expense of $3,529 and $6,279 for the three months ended June 30, 2010 and 2009 for stock options previously granted and vesting over time.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Other Contractual Obligations

As of the balance sheet date, our contractual obligations consist of future minimum lease payments of $3,219 pursuant to our corporate office lease in Washington, DC and our business office lease in Bel Air, Maryland. In addition, we have future minimum payments $3,563 pursuant to the Shareholder Communications Services Agreement, as discussed above.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

See Note 4. Summary of Significant Accounting Policies to the Consolidated Financial Statements in this Form 10-Q.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation 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), as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2010 that our disclosure controls and procedures were effective such that the information required to be disclosed in our United States Securities and Exchange Commission (the SEC) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report 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.

None.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

3.1 Articles of Incorporation. (2)

3.2 Articles of Incorporation, as amended. (1)

3.3 By Laws. (2)

4.1 Securities Purchase Agreement dated April 17, 2008 by and among International Energy, Inc. and Purchasers named therein and who are signatories thereto. (2)

4.2 Form of Registration Rights Agreement dated April 17, 2008 by and among International Energy, Inc. and entities named therein and who are signatories thereto. (2)

4.3 Form of Series B Warrant. (2)

4.4 Placement Agent Agreement with Palladium Capital Advisors, LLC. (2)

10.1 Research Agreement with The Regents of the University of California dated September 17, 2007. (2)

10.2 Employment Agreement dated July 29, 2008 with Gregory O Reilly.(3)

10.3 Agreement dated October 15, 2008 terminating the July 29, 2008 employment agreement with Gregory O Reilly.(3)

10.4 Employment Agreement dated October 15, 2008 with Charles Bell. (3)

99.1 International Energy, Inc. 2002 Incentive Stock Plan.(4)

31.1 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Rule 13(a)-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

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32.1 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 USC. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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*Filed herewith.

(1) Incorporated by reference to the Company s Report on Form 10-Q for the quarterly period ended December 31, 2009 filed with the Commission on February 22, 2010.

(2) Incorporated by reference to the Company s Registration Statement on Form S-1 filed with the Commission on June 23, 2008.

(3) Incorporated by reference to the Company s Registration Statement on Form S-1/A filed with the Commission on December 31, 2008.

(4) Incorporated by reference to the Company s Registration Statement on Form S-8 filed with the Commission on August 24, 2005.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

International Energy, Inc.

(Registrant)

Date: August 16, 2010

By: /s/ Charles Bell
Charles Bell

President, Chief Executive Officer,

Chief Financial Officer, Director