

Edgar Filing: CNE GROUP INC - Form 10QSB

CNE GROUP INC
Form 10QSB
August 19, 2003

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

FORM 10-QSB

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003

Transition report under Section 13 or 15(d) of the Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-9224

CNE GROUP, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

56-2346563
(I.R.S. Employer
Identification No.)

200 West 57th Street, Suite 507, New York, NY 10019
(Address of Principal Executive Offices)

212-977-2200

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 No

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at July 31, 2003
Common stock - par value \$.00001	6,490,920 shares

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The following consolidated financial statements of CNE Group, Inc. and subsidiaries (collectively referred to as the "Company," unless the context requires otherwise) are prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-QSB and reflect all adjustments (consisting of normal recurring accruals) and

Edgar Filing: CNE GROUP INC - Form 10QSB

disclosures which, in the opinion of management, are necessary for a fair statement of results for the interim periods presented. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, which was filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

1

CNE Group, Inc. and Subsidiaries Consolidated Balance Sheets

	June 30, 2003
	(Unaudited)
ASSETS	
Current:	
Cash and cash equivalents	\$ 317,049
Accounts receivable, net	258,377
Insurance claims receivable	
Inventory	228,359
Other	26,901
Total current assets	830,686
Fixed assets, net	450,462
Intellectual property rights	1,550,609
Intangibles	7,285,894
Other	45,550
Total assets	\$ 10,163,201
LIABILITIES	
Current:	
Accounts payable and accrued expenses	\$ 452,902
Interest payable (Note 13)	48,067
Lines of credit	164,324
Notes payable - other	160,000
10% Subordinated notes	417,500
Other	26,670
Tax assessment payable (Note 13)	
Debentures payable (Note 13)	
Excess of liabilities over assets of activities to be disposed (Notes 8 and 13)	4,502,243
Total current liabilities	5,771,706
Notes payable	30,033
8% Subordinated notes	2,000,000
Deferred grant revenue	291,827

Edgar Filing: CNE GROUP INC - Form 10QSB

Total liabilities	8,093,566
<hr/>	
Commitments and contingencies (Note 4)	
CAPITAL	
Preferred stock (Notes 1 and 9)	119
Common stock (Notes 1 and 10)	77
Paid-in surplus	24,070,485
Accumulated deficit	(19,127,946)
<hr/>	
	4,942,735
Less treasury stock, at cost - 1,238,656 shares	(2,873,100)
<hr/>	
Total capital	2,069,635
<hr/>	
Total liabilities and capital	\$ 10,163,201
<hr/>	

See Notes to Consolidated Financial Statements

2

CNE Group, Inc. and Subsidiaries
Consolidated Statements of Operations

	Three Months Ended June 30,		
	2003	2002	
	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:			
Product sales	\$ 356,093		\$
Service fee income	168,519		
Internet related income	34,819	\$ 58,428	
	<hr/>	<hr/>	<hr/>
	559,431	58,428	
Costs of goods sold	278,353		
	<hr/>	<hr/>	<hr/>
Gross profit	281,078	58,428	
Other expenses:			
Selling	17,091		
Compensation and related costs	313,704	168,716	
General and administrative	340,419	146,916	
Depreciation and amortization	11,083	67,532	
	<hr/>	<hr/>	<hr/>
	682,297	383,164	
	<hr/>	<hr/>	<hr/>
Loss from continuing operations before other income and expenses	(401,219)	(324,736)	
Amortization of debt discount	(116,500)	(7,442)	

Edgar Filing: CNE GROUP INC - Form 10QSB

Interest expense	(148,901)	(87,136)	(
Gain on fixed assets (Note 1)		20,887	
Reversal of Director fees accrual	-----	-----	---
Loss from continuing operations before income taxes	(666,620)	(398,427)	(
Income tax provision	-----	-----	---
Loss from continuing operations	(666,620)	(398,427)	(
Discontinued operations:			
Income from discontinued operations	-----	-----	---
Net income (loss)	\$ (666,620)	\$ (398,427)	\$ (
	=====	=====	=====
Per common share - basic and diluted:			
Loss from continuing operations	\$ (.10)	\$ (.07)	\$
Income from discontinued operations	--	--	
	-----	-----	---
Net income (loss) per common share	\$ (.10)	\$ (.07)	\$
	=====	=====	=====
Weighted average number of common shares outstanding - basic and diluted	6,490,920	5,590,944	6,
	=====	=====	=====

See Notes to Consolidated Financial Statements

3

CNE Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2003	
	-----	---
	(Unaudited)	(Un
Cash flows from operating activities:		
Loss from continuing operations	\$ (909,543)	\$ (
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,270	
Issuance of common stock for services	81,250	
Amortization of debt discount	116,500	
Reversal of fees due to Directors		
Gain on fixed assets destroyed in catastrophe		(
Changes in:		
Accounts and insurance claims receivable	42,727	
Inventory	8,600	
Other assets	(10,584)	

Edgar Filing: CNE GROUP INC - Form 10QSB

Accrued expenses and other liabilities	8,642	
Deferred grant revenue		
	-----	---
Cash used in continuing operations	(639,138)	
Cash provided by discontinued operations		
	-----	---
Net cash provided by (used in) operating activities	(639,138)	
	-----	---
Cash flows from investing activities:		
Purchase of furniture and equipment	(17,013)	
	-----	---
Net cash used in investing activities	(17,013)	
	-----	---
Cash flows from financing activities:		
Proceeds from issuance of 10% notes payable	1,000,000	
Principal repayments on notes payable - other	(110,000)	
Payment of accounts receivable due Sellers of Econo-Comm, Inc.	(100,000)	
	-----	---
Net cash provided by financing activities	790,000	
	-----	---
Increase in cash and cash equivalents	133,849	
Cash and cash equivalents at beginning of period	183,200	
	-----	---
Cash and cash equivalents at end of period	\$ 317,049	\$
	=====	==

See Notes to Consolidated Financial Statements

4

CNE Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows, continued

		Six Mo
		Ju

		2003

		(Unaudited)
Supplemental disclosures of cash flow information related to continuing operations:		
Cash paid during the period for:		
Interest	\$	12,615
Income taxes	\$	--
Non-cash investing and financing activities relating to the acquisition of subsidiaries and certain intellectual property rights:		
Accounts receivable	\$	102,048
Inventory		236,959

Edgar Filing: CNE GROUP INC - Form 10QSB

Intellectual property rights	1,550,609
Intangibles	7,285,894
Other assets	518,586
Accrued expenses and other liabilities	(1,622,015)
8% notes payable	(2,000,000)
Issuance of preferred stock, at par	(119)
Issuance of common stock, at par	(9)
Paid in surplus	(6,048,075)

See Notes to Consolidated Financial Statements

5

CNE Group, Inc. and Subsidiaries Notes To Consolidated Financial Statements (Unaudited)

1. General

Business

CNE Group, Inc. (the "Company" or "CNE") is a holding company whose primary operating subsidiaries are SRC Technologies, Inc. ("SRC") and Econo-Comm, Inc. (d/b/a Mobile Communications) ("ECI"). SRC, also a holding company, is the parent of Connectivity, Inc. ("Connectivity") and US. CommLink, Ltd. ("USCL"). Connectivity, USCL and ECI, the "SRC group of companies," market, manufacture, repair and maintain remote radio and cellular-based emergency response products to a variety of federal, state and local government institutions, and other vertical markets throughout the United States. SRC and the Company have intellectual property rights to certain key elements of these products - specifically, certain communication, data entry and telemetry devices.

The Company also generates revenue from its CareerEngine division that is engaged in the business of e-recruiting.

The Company and CareerEngine are located at 200 West 57th Street, New York, NY 10019 (212- 977-2200). SRC, Connectivity and ECI are located at 3733 NW 16th Street, Lauderhill, FL 33311 (954-587-1414). USCL is located at 6244 Preston Avenue, Livermore, CA 94550 (925-960-0097).

Corporate Matters

On April 17, 2003, pursuant to the terms of Section 251(g) of the Delaware General Corporation Law, CareerEngine Network, Inc. ("CareerEngine") became a wholly-owned subsidiary of the Company. Pursuant to this transaction, the Company acquired all of the assets of CareerEngine and all former stockholders of CareerEngine became the stockholders of the Company, which is the entity that is now publicly traded on the American and Pacific Stock Exchanges under the symbol "CNE." As a successor entity to CareerEngine, the Company's shares are deemed to be registered under Section 12(g) of the Securities Exchange Act of 1934 and Rule 12g-3 promulgated thereunder. The shares were issued without registration in reliance upon exemptions provided in Section 3(a)(9) of the Securities Act of 1933 and Rule 145 promulgated thereunder.

In addition, the officers and directors of CareerEngine became the officers and directors of the Company. On April 23, 2003, three directors of the Company resigned (Kevin J. Benoit, Edward A. Martino and James J.

Edgar Filing: CNE GROUP INC - Form 10QSB

Murtha) and their replacements were appointed (Michael J. Gutowski, Larry M. Reid and Carol L. Gutowski). Ms. Gutowski is the wife of Michael J. Gutowski. Messrs. Gutowski and Reid were also appointed the President and Chief Operating Officer and the Executive Vice President of the Company, respectively. See "Acquisition of all of the outstanding stock of SRC and ECI" below.

See Notes to Consolidated Financial Statements

6

In addition, on April 23, 2003, the Board of Directors and majority of the stockholders of the Company approved an increase in the authorized number of shares of common stock to 40,000,000 with a par value of \$0.00001 per share and approved an increase in the authorized number of shares of preferred stock to 25,000,000 with a par value of \$0.00001 per share. The preferred stock may be issued in one or more series at the discretion of the Board of Directors.

Acquisition of all of the outstanding stock of SRC and ECI

SRC

On April 23, 2003, the Company issued to Mr. and Mrs. Gutowski, the former principal common stockholders of SRC, an aggregate of 4,867,937 shares of its non-voting Series C Preferred Stock and a like number of ten year Class C Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The Class C Warrants are not exercisable and are not detachable from the C Preferred Stock prior to 66 months after their issuance. See Note 9 - Preferred Stock.

The Company issued to the other former common stockholders of SRC, including Larry M. Reid, an aggregate of 899,976 shares of its Common Stock, 1,697,961 shares of its non-voting Series A Preferred Stock and a like number of ten year non-detachable Class A Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The Class A Warrants are not exercisable and are not detachable from the Series A Preferred Stock prior to 66 months after their issuance. See Note 9 - Preferred Stock.

The Company issued an aggregate of 440,000 shares of its Series B Preferred Stock to the former holders of the SRC Series B Preferred Stock. See Note 9 - Preferred Stock.

The Series A Preferred Stock has an aggregate liquidating preference over all other CNE equity of \$1,697,961 and the Series B Preferred Stock has an aggregate liquidating preference over all other CNE equity except the Series A Preferred Stock of \$440,000. The Series C Preferred Stock has no liquidating preference.

ECI

On April 23, 2003, the Company issued to Gary Eichsteadt and Thomas Sullivan, the former stockholders of ECI, an aggregate of 4,867,938 shares of its Series C Preferred Stock and a like number of Class C Warrants. In addition, Messrs. Eichsteadt and Sullivan retained certain of ECI's trade receivables aggregating approximately \$100,000. The Company also acquired a patent related to the operation of ECI's business from Mr. Eichsteadt for notes in the aggregate principal amount of \$2,000,000, bearing interest at the annual rate of 8%, payable quarterly, and due on October 31, 2008. Messrs. Eichsteadt and Sullivan remained executive officers ECI.

Edgar Filing: CNE GROUP INC - Form 10QSB

There were no relationships between the Company or any of its affiliates and any of the sellers of the assets acquired by the Company prior to the acquisition transactions.

See Notes to Consolidated Financial Statements

7

Private Financing

On April 23, 2003, the Company also effected a private financing pursuant to which it issued notes (the "Notes") in the aggregate principal amount of \$1,000,000, of which \$650,000 was to the officers of the Company, and 3,124,350 ten year Class B Warrants, each to purchase one share of its Common Stock at \$0.50 per share. The Notes bear interest at the annual rate of 10% payable quarterly and are due on April 30, 2004. The Warrants are anti-dilutive until the Notes have been repaid. The due date of the Notes may be extended at the Company's option for an additional year in consideration for the issuance of 10-year warrants to purchase 5% of the Company's then outstanding common stock at \$0.50 per share. These Warrants would also be anti-dilutive until the Notes have been repaid. In addition, the Company valued the warrants, utilizing the Black-Scholes Pricing Model, at \$699,000 which is being accounted for as debt discount and is being amortized ratably over the one-year term of the Notes.

The Company is using the funds obtained from this financing to pay certain ECI notes payable and for working capital. The financing was effected pursuant to the exemption from the registration provisions of the Securities Act of 1993 provided by Section 4(2) thereof.

2003 Stock Incentive Plan

On April 30, 2003 a majority of the stockholders and the Board of Directors of the Company approved the 2003 Stock Incentive Plan (the "2003 Plan"), which provides, among other matters, for incentive and non-qualified stock options to purchase 3,500,000 shares of Common Stock. The purpose of the 2003 Plan is to provide incentives to officers, key employees, directors, independent contractors and agents whose performance will contribute to the long-term success and growth of the Company, to strengthen the ability of the Company to attract and retain officers, key employees, directors, independent contractors and agents of high competence, to increase the identity of interests of such people with those of the Company's stockholders and to help build loyalty to the Company through recognition and the opportunity for stock ownership. The 2003 Plan is administered by the Incentive Compensation Committee of the Board. On April 30, 2003, options to purchase 1,987,500 shares of the Company's common stock, at a weighted average exercise price of \$1.32, were granted to five officers (1,800,000) and one employee (187,500) of the Company. No options granted have been exercised. In addition, on April 30, 2003, options to purchase 605,000 shares of the Company's common stock were granted to independent contractors of the Company and the Company recorded a charge of \$81,250, relating to the 325,000 options that were vested at June 30, 2003, on its Statement of Operations for the three and six month ended June 30, 2003.

Catastrophe of September 11, 2001

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. The catastrophe of September 11, 2001 involved no

Edgar Filing: CNE GROUP INC - Form 10QSB

injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed. Since the attack through the date of the acquisitions and financing set forth above, the Company's management had been preoccupied with the relocation and reestablishment of its businesses, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and

See Notes to Consolidated Financial Statements

8

seeking sources of financing. In 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, recorded a \$152,934 gain on assets destroyed due to this catastrophe which was recorded in the six months ended June 30, 2002. The Company also had insurance coverage for other than assets destroyed. As of June 30, 2003 all outstanding insurance claims relating to the catastrophe have been received.

In addition, the Company applied for governmental assistance grants related to the catastrophe. In April and September 2002, the Company received grants aggregating \$291,827. The grants have a restriction that could require their repayment, specifically if the Company were to relocate a substantial portion its operations outside of New York City before May 1, 2005. Until such time as this restriction shall no longer apply, the grants will be classified as a liability of the Company. Upon the satisfaction or lapse of the restrictions, the Company will remove the liability and record grant income on its financial statements or, alternatively, have to repay such grants if the above condition is not satisfied.

2. Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note B to the Company's financial statements included in its Form 10-KSB, for the year ended December 31, 2002, which was filed with the Securities and Exchange Commission.

In the opinion of management, the unaudited consolidated financial statements include all adjustments necessary for a fair presentation of the Company's financial position as of June 30, 2003 and the results of its operations and its cash flows for the three-month and six-month periods ended June 30, 2003 and 2002. The financial statements as of June 30, 2003 and for the three and six months then ended are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows and has a working capital deficit. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. However, there is no assurance that the Company will achieve profitable operations or cash flow.

Management believes that such working capital deficit, losses and negative operating cash flows will ultimately be positively addressed by (1) the

Edgar Filing: CNE GROUP INC - Form 10QSB

acquisitions and related financing disclosed within these financial statements as of June 30, 2003 and 2002 and the three month periods then ended and (ii) the expected results of our current fund raising activities.

Revenue Recognition

The Company's operations relating to manufacturing, marketing and servicing its remote and cellular-based emergency response products recognizes revenue from the sale of a product upon installation or delivery to the customer, depending on the terms of the underlying sales agreement

See Notes to Consolidated Financial Statements

9

Fees from E-recruiting are earned on the placement of job placement and sponsorship advertisements on the Company's web site and are recognized over the period during which the advertisements are exhibited. Revenues derived from co-branding arrangements with content providers are of a similar nature and are recognized over the period during which the advertisements are exhibited. Website construction fees are recognized ratably over the construction period. Monthly hosting and maintenance fees for such sites are recognized ratably over the period of the underlying contract.

Trade Receivables

The Company evaluates collectability of trade receivables based on the creditworthiness of each customer. An allowance for doubtful accounts is established, if necessary, based on the results of management's assessment.

Concentration of Credit Risk

The Company is exposed to credit risks in the event of default by financial institutions in which balances are maintained in excess of insured limits. At June 30, 2003 such exposure aggregated \$140,392.

The Company's sales are primarily provided to customers throughout the United States. Historically, there have been no material concentration, and credit losses have not been significant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory consists primarily of electronic parts and cellular phones. Inventory is stated at the lower of cost (first-in, first-out) or market.

Startup Activities

Edgar Filing: CNE GROUP INC - Form 10QSB

Costs associated with the organization and start-up activities of the Company were expensed as incurred.

Income (Loss) Per Share

Basic income (loss) per share is based on the weighted average number of common shares outstanding. Employee incentive stock options and outstanding warrants did not have an effect on the computation of diluted earnings per share since they were anti-dilutive.

See Notes to Consolidated Financial Statements

10

Stock-Based Compensation

As permitted under SFAS No. 123, Accounting for Stock-based Compensation (SFAS No. 123), the Company has elected to continue to follow the guidance of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25 (FIN No. 44), in accounting for its stock-based employee compensation arrangements. Accordingly, no compensation cost is recognized for any of the Company's fixed stock options granted to employees when the exercise price of each option equals or exceeds the fair value of the underlying common stock as of the grant date for each stock option. Changes in the terms of stock option grants, such as extensions of the vesting period or changes in the exercise price, result in variable accounting in accordance with APB Opinion No. 25. Accordingly, compensation expense is measured in accordance with APB No. 25 and recognized over the vesting period. If the modified grant is fully vested, any additional compensation costs is recognized immediately. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123.

At June 30, 2003, the Company and two of its subsidiaries each had separate stock-based employee compensation plans. On March 14, 2003 all recipients of options granted to them under the plans of the subsidiaries rescinded their interests. As permitted under SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure, which amended SFAS No. 123, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by APB No. 25 and related interpretations including FIN No. 44. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for options granted under its plan.

	Six Months Ended June 30,	
	2003	2002
Net (loss) income, as reported	\$(909,543)	\$3,107,927
Less, Total stock-based employee compensation expense determined under fair value-based method for all awards,		

Edgar Filing: CNE GROUP INC - Form 10QSB

net of related tax effects	0	0
	-----	-----
Pro forma net (loss) income	\$ (909,543)	\$3,107,927
	=====	=====
Net (loss) income per share:		
Basic and diluted - as reported	\$ (0.15)	\$ 0.56
	=====	=====
Basic and diluted - pro forma	\$ (0.15)	\$ 0.56
	=====	=====

On April 30, 2003, options to purchase 1,987,500 shares were granted to five officers (1,800,000) and one employee (187,500) of the Company at exercise prices equal to the market price of the Company's common stock on the date of the grant. No options granted have been exercised. In addition, on April 30, 2003, options to purchase 605,000 shares were granted to independent contractors of the Company. See Note 1 - General: 2003 Stock Incentive Plan.

See Notes to Consolidated Financial Statements

11

Impairment of Long-Lived Assets

Impairment losses are recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are not sufficient to recover the assets' carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. No write-down of assets for impairment losses were required during the three and six month periods ended June 30, 2003 and the year ended December 31, 2002.

3. Discontinued Operations

In 1997, the Company entered into a triple net, credit type lease with Carmike Cinemas, Inc. ("Carmike"), pursuant to which the Company leased to Carmike six parcels of land and the improvements thereon. Concurrently, the Company issued \$72,750,000 principal amount of its adjustable rate tender securities due November 1, 2015 (the "Bonds"). The Bonds were secured by irrevocable letters of credit issued by a group of banks. In connection therewith the Company entered into a Reimbursement Agreement with Wachovia, as agent for the banks, under which the Company was obligated to remit all rent received under the lease to Wachovia to reimburse the banks for the Bond payments made by draws on their letters of credit.

On August 8, 2000, Carmike filed a petition under Chapter 11 of the United States Bankruptcy Code. As a result of that filing and Carmike's subsequent failure to pay rent to date under the lease, the Company failed to make required payments to Wachovia under the Reimbursement Agreement. Accordingly, Wachovia declared a default under the Reimbursement Agreement and accelerated all amounts due by the Company thereunder. Wachovia also directed the Trustee under the related Indenture to redeem the Bonds. Such amounts were paid entirely through draws on the related letters of credit and were not paid with funds of the Company. However, as the Bonds are no longer outstanding, all unamortized financing costs (amounting to \$804,667) relating thereto were expensed. In addition, Carmike has not

Edgar Filing: CNE GROUP INC - Form 10QSB

disaffirmed the lease and continues to occupy the six theaters.

Interest and fees which have been accrued on the reimbursement obligations through December 2001 have been recorded with a corresponding amount of accrued rent receivable from Carmike.

On January 31, 2002 title to the six theaters was transferred to the banks in payment of the non-recourse debt under the Reimbursement Agreement and the Company recognized a gain of \$3,512,884, representing the excess of the liabilities over the carrying value of the assets relating to the real estate leased to Carmike. In addition, the Company received \$294,755 in connection with the sale of its common membership interest in Movieplex relating to the transfer of title of the movie theaters to Wachovia.

See Notes to Consolidated Financial Statements

12

Income from discontinued operations for the three and six month periods ended June 30, 2003 and 2002 are as follows:

	Three Months Ended June 30,		
	2003	2002	2003
Revenues:			
Rental income	\$	--	\$
Gain on extinguishment of debt			
Common membership interest transfer fee			
Expenses:			
Interest			
Other			
	\$	--	\$
	-----	-----	-----

4. Litigation

The Company is a party to various vendor related litigation. Based on the advise of legal counsel, the Company has accrued a liability of approximately \$100,000.

5. Debentures Payable

In 2000, the CareerEngine privately placed 48 units of its securities. Each unit consisted of a \$50,000 subordinated convertible debenture, 12,500 Class A Common Stock Warrants and 12,500 Class B Common Stock

Edgar Filing: CNE GROUP INC - Form 10QSB

Warrants. Each \$50,000 debenture is convertible into 25,000 shares of common stock. The Class A and B Warrants are exercisable at \$4 and \$6, respectively. The debentures bear interest at 12%, payable quarterly, commencing October 1, 2000 and mature March 31, 2010. The Class A Warrants expired on March 31, 2003 and the Class B Warrants are exercisable at any time until March 31, 2005. In the private placement, officers, stockholders and directors of the Company acquired 10.5 units for \$525,000.

At June 30, 2003, the aggregate number of shares issuable upon the exercise of all the outstanding warrants and the conversion of all the debentures is 1,800,000.

CareerEngine incurred an interest charge of \$246,875 due to the beneficial conversion feature of the debentures. In addition, CareerEngine valued the warrants at \$740,000 which was being accounted for as debt discount and was being amortized through the period the debentures were callable. The amounts ascribed to the beneficial conversion feature and the warrants aggregating \$986,875 were credited to paid-in-surplus.

See Notes to Consolidated Financial Statements

13

CareerEngine paid the placement agent cash of \$375,025 and granted the agent a warrant exercisable through June 2005 (valued at \$200,000) to purchase 5 units at \$60,000 per unit. Of the total consideration, \$426,658 was accounted for as deferred financing costs which was being amortized over the life of the debentures and \$148,367 deemed attributable to the warrant portion of the unit, was charged to paid-in surplus.

Interest accrued on debentures payable, relating to the period from April 1, 2002 through June 30, 2003, aggregating \$360,000 has not been paid through July 1, 2003. Accordingly, since the CareerEngine had not paid the interest due on July 1, 2002 by July 16, 2002 (the "grace period"), CareerEngine's obligation is considered callable by the debenture holders. However, for the debentures to be in default, the holders of no less than 51% in principal amount of the debentures must notify the Company that an event of default has occurred and may thereafter declare all debentures and related interest immediately due and payable. As of August 18, 2003, no such demand had been made by any debenture holder.

As a result of the nonpayment of interest as set forth above and the reclassification of the debentures as a current obligation, the remaining (i) unamortized debt discount on the debentures (\$661,980) was recognized as interest expense and (ii) unamortized deferred financing costs associated with the debentures (\$320,350) was recognized as expense, in 2002.

See Note 13 "Subsequent Events: Conversion of Debentures Payable."

6. Income Taxes

Commencing in August 2000, pursuant to an understanding with the IRS, the Company began paying \$30,000 per month until the assessed tax deficiency relating to the years 1985 through 1989 and interest thereon is fully satisfied. However, after a technical review by special tax counsel of the tax deficiency and related interest, management of the Company believed that there may be a basis for its reduction. Pending the ultimate

Edgar Filing: CNE GROUP INC - Form 10QSB

resolution of this matter with the IRS, in September 2001 the Company temporarily suspended making monthly payments. At June 30, 2003, the outstanding balance of the liability amounted to approximately \$946,000 including related interest.

See Note 13 "Subsequent Events: Settlement of Tax Assessment Payable."

7. Director Fees

At June 30, 2003, the Company's five outside directors have similarly agreed to forego previously accrued and unpaid directors' fees earned through December 31, 2001 and agreed to forego future compensation until further notice. The reversal of previously accrued fees has been reflected in the Company's Consolidated Statement of Operations for the three and six-month period ended June 30, 2002. Due to the nature of the Company's operations prior to the acquisitions and related financing in April, 2003, appropriate director compensation was deemed to be a nominal amount by the Company.

See Notes to Consolidated Financial Statements

14

8. Excess of Liabilities over Assets of Activities to be Disposed

Two subsidiaries of the Company have remaining liabilities of \$4,605,447 that are substantially in excess of their remaining assets of \$103,204. Each of these subsidiaries created a trust for the benefit of their creditors. The assets of each trust consists of the remaining assets of the subsidiary (or if the assets were not transferred to the trust, their cash value determined by independent appraisals obtained for the trusts). The Trustees of each of the trusts are required to utilize such remaining assets to satisfy the remaining liabilities of such subsidiaries. The creditors who are subject to such trust arrangements have not approved or been asked to approve the extinguishment of these obligations. Company's counsel has opined that the creditors of the two subsidiaries cannot reach the assets of the Company or any of its other subsidiaries to satisfy the obligations of these two subsidiaries to such creditors. The Company expects that the creditors of these two subsidiaries will look directly to the Trustees and the remaining assets of the trusts for the satisfaction of their claims and that the Company will be freed from dealing with these issues.

Excess of liabilities over assets of activities to be disposed consists of the following at June 30, 2003

	June 30, 2003

Transferred liabilities:	
Accounts payable and accrued expenses	\$ 444,910
Interest payable	360,000
Debentures payable	2,400,000
Tax assessments payable	1,373,948
Other	26,589

	4,605,447
Transferred assets:	(103,204)

Excess of liabilities over assets of activities to be disposed	\$ 4,502,243

Edgar Filing: CNE GROUP INC - Form 10QSB

=====

See Note 13 "Subsequent Events: Settlement of Tax Assessment Payable, Conversion of Debentures Payable, and Sale of Subsidiary."

9. Preferred Stock

Preferred Stock consists of the following at June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002
	-----	-----
Par value per share:	\$.00001	\$.10000
Authorized number of shares	25,000,000	1,000,000
Issued and outstanding number of shares:		
Series A	1,697,961	--
Series B	440,000	--
Series C	9,735,875	--
Series E	--	--
	-----	-----
Total	11,873,836	--
	=====	=====

See Notes to Consolidated Financial Statements

15

10. Common Stock

Common Stock consists of the following at June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002
	-----	-----
Par value per share:	\$.00001	\$.10000
Authorized number of shares	40,000,000	10,000,000
Issued and outstanding number of shares	7,729,576	6,829,600

11. Acquisitions and related Unaudited Pro forma Financial Information

The purchase price of the acquisition of SRC and ECI was allocated to the Company's assets and liabilities, tangible and intangible (as determined by an independent appraiser), with the excess of the purchase price over the fair value of the net assets acquired of \$7,285,894 being recorded as Intangibles. The value of the intellectual property rights, amounting to \$1,550,609, acquired in the related financing was also determined by an independent appraiser. SRC and its subsidiaries Connectivity and USCL, and ECI, collectively market, manufacture, repair and maintain remote radio and cellular-based emergency response products to a variety of federal, state and local government institutions, and other vertical markets throughout the United States. Due to these acquisitions and related financing, the Company has acquired intellectual property rights to certain key elements of these products - specifically, certain communication, data entry and telemetry devices.

The Company's consolidated financial statements include the results of operations of SRC and ECI from their respective acquisition dates. The following unaudited pro forma information presents a summary of our

Edgar Filing: CNE GROUP INC - Form 10QSB

consolidated results of operations as if the SRC and ECI acquisitions and the related financing had taken place on January 1, 2002 for the three and six month periods ended June 30, 2002 and on January 1, 2003 for the three and six month periods ended June 30, 2003. The SRC and ECI acquisitions have been recorded in accordance with SFAS No. 141; therefore, no amortization of goodwill or intangible assets without determinable lives related to SRC and ECI is reflected in the prior year amounts. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred on January 1, 2002 or January 1, 2003, as the case may be, or which may result in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues	\$ 673,251	\$ 794,399	\$ 1,201,933	\$ 1,949,399
Expenses	1,522,113	1,565,223	2,694,324	3,253,223
Loss from continuing operations	\$ (848,862)	\$ (770,824)	\$ (1,492,391)	\$ (1,304,824)
Loss from continuing operations per share:				
Basic and diluted	\$ (0.13)	\$ (0.14)	\$ (0.15)	\$ (0.14)

See Notes to Consolidated Financial Statements

16

12. American Stock Exchange Listing

The Company has sustained losses from continuing operations for five of its most recent fiscal years and, accordingly, pursuant to certain requirements of the American Stock Exchange the Company must have Stockholders' Equity or Capital in excess of \$6,000,000 to meet the Exchange's continuing listing requirements.

At June 30, 2003 the Company's Capital was \$2,069,635. The subsequent events set forth in Note 13 below increases its Capital to \$6,142,757 as follows:

Capital at June 30, 2003	\$2,069,635
Effect of settlement of tax assessment payable	895,622
Effect of debentures payable conversion	2,587,500
Effect of sale of subsidiary	590,000

Capital at June 30, 2003, as adjusted by the Subsequent Events as per Note 13	\$6,142,757
	=====

The Company is actively seeking additional equity and/or debt financing for its business operations.

Edgar Filing: CNE GROUP INC - Form 10QSB

13. Subsequent Events

Settlement of Tax Assessment Payable

On July 16, 2003, the Internal Revenue Service accepted an Offer in Compromise submitted on April 24, 2003 by a subsidiary of the Company to settle its Tax Assessment Payable amounting to approximately \$946,000, including related interest, at June 30, 2003. The accepted Offer in Compromise provides for payment of \$50,000 cash, payable on or before October 14, 2003. The subsidiary paid \$30,000 of the settlement in July 2003 with the balance to be paid prior to October 14, 2003.

The Company will recognized an adjustment to income in the amount of approximately \$895,000 relating to this transaction when the settlement is paid in full.

Conversion of Debentures Payable

In August 2003, 93.75% of the holders of the Debentures Payable issued by a subsidiary of the Company elected to (i) convert the entire outstanding principal balance of the debentures amounting to approximately \$2,250,000, (ii) return (562,500) of the related outstanding B Warrants of the Company, and (iii) waive all accrued and unpaid interest relating thereto (\$337,500), in consideration of (i) 1,125,000 shares of the common stock of the Company and (ii) 1,125,000 five-year common stock warrants exercisable at \$3.00 per share. One half of these warrants are exercisable immediately with the balance exercisable commencing January 1, 2004. The conversion of the Debentures Payable will increase the Company's Common Stock, par value \$.00001, by \$11.00, and increased Paid-in-surplus by \$2,587,489.

See Notes to Consolidated Financial Statements

17

Sale of Subsidiary

On August 15, 2003 the Company, for a nominal amount, sold all the stock of one of the subsidiaries whose remaining assets and liabilities were transferred to a trust for the benefit of its creditors and will recognize a gain amounting to approximately \$590,000.

See Notes to Consolidated Financial Statements

18

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

Special Note Regarding Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-QSB constitute "forward-looking statements" relating to the Company within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding future events, our financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In some cases you can identify forward-looking statements by

Edgar Filing: CNE GROUP INC - Form 10QSB

terminology, such as "may," "will," "would," "should," "could," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those contemplated by the statements. In evaluating these statements, you should specifically consider various factors that may cause our actual results to differ materially from any forward-looking statements.

General

CNE Group, Inc. (the "Company" or "CNE") is a holding company whose primary operating subsidiaries are SRC Technologies, Inc. ("SRC" and Econo-Comm, Inc. (d/b/a Mobile Communications) ("ECI"). SRC, also a holding company, is the parent of Connectivity, Inc. ("Connectivity") and US. Commlink, Ltd. ("USCL"). Connectivity, USCL and ECI, the "SRC group of companies," market, manufacture, repair and maintain remote radio and cellular-based emergency response products to a variety of federal, state and local government institutions, and other vertical markets throughout the United States. SRC and the Company have intellectual property rights to certain key elements of these products - specifically, certain communication, data entry and telemetry devices.

The Company also generates revenue from its CareerEngine division that is engaged in the business of e-recruiting.

2003 Stock Incentive Plan

On April 30, 2003 a majority of the stockholders and the Board of Directors of the Company approved the 2003 Stock Incentive Plan (the "2003 Plan"), which provides, among other matters, for incentive and non-qualified stock options to purchase 3,500,000 shares of Common Stock. The purpose of the 2003 Plan is to provide incentives to officers, key employees, directors, independent contractors and agents whose performance will contribute to the long-term success and growth of the Company, to strengthen the ability of the Company to attract and retain officers, key employees, directors, independent contractors and agents of high competence, to increase the identity of interests of such people with those of the Company's stockholders and to help build loyalty to the Company through recognition and the opportunity for stock ownership. The 2003 Plan is

See Notes to Consolidated Financial Statements

19

administered by the Incentive Compensation Committee of the Board. On April 30, 2003, options to purchase 1,987,500 shares of common stock of the Company, at a weighted average exercise price of \$1.32, were granted to five officers (1,800,000) and one employee (187,500) of the Company. No options granted have been exercised. In addition, on April 30, 2003, options to purchase 605,000 shares of common stock of the Company were granted to independent contractors of the Company and the Company recorded a charge of \$81,250 relating to the 325,000 options that were vested at June 30, 2003 on its Statement of Operations for the three and six month periods ended June 30, 2003.

Catastrophe of September 11, 2001

Edgar Filing: CNE GROUP INC - Form 10QSB

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. The catastrophe of September 11, 2001 involved no injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed. Since the attack through the date of the acquisitions and financing set forth above, the Company's management had been preoccupied with the relocation and reestablishment of its businesses, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and seeking sources of financing. In 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, recorded a \$152,934 gain on assets destroyed due to this catastrophe which was recorded in the six months ended June 30, 2002. The Company also had insurance coverage for other than assets destroyed. As of June 30, 2003 all outstanding insurance claims relating to the catastrophe have been received.

In addition, the Company applied for governmental assistance grants related to the catastrophe. In April and September 2002, the Company received grants aggregating \$291,827. The grants have a restriction that could require their repayment, specifically if the Company were to relocate a substantial portion its operations outside of New York City before May 1, 2005. Until such time as this restriction shall no longer apply, the grants will be classified as a liability of the Company. Upon the satisfaction or lapse of the restrictions, the Company will remove the liability and record grant income on its financial statements or, alternatively, have to repay such grants if the above condition is not satisfied.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America. Certain accounting policies have a significant impact on amounts reported in the financial statements. A summary of those significant accounting policies can be found in Note B to the Company's financial statements included in its Annual Report on Form 10-KSB for the year ended December 31, 2002. The Company has not adopted any significant new accounting policies during the six-month period ended June 30, 2003.

A significant judgment made by management in the preparation of the Company's financial statements is the determination of the allowance for doubtful accounts. This determination is made periodically in the ordinary course of business.

See Notes to Consolidated Financial Statements

20

A. Results of Operations:

Three-Month Period Ended June 30, 2003 Compared to the Three-Month Period Ended June 30, 2002

Revenues

Total revenues from continuing operations increased to \$559,431 for the three-month period ended June 30, 2003 from \$58,428 for the three-month period ended June 30, 2002.

Edgar Filing: CNE GROUP INC - Form 10QSB

Product sales income increased to \$356,093 for the three-month period ended June 30, 2003 from nil for the three-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Service fee income increased to \$168,519 for the three-month period ended June 30, 2003 from nil for the three-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Internet related income decreased to \$34,819 for the three-month period ended June 30, 2003 from \$58,428 for the three-month period ended June 30, 2002 as the operations of our subsidiary, CareerEngine, Inc. have been significantly reduced since January 2001.

In July 2003, (i) a subsidiary of the Company entered into a product supply, license and distribution agreement for its wireless call box products with the Commercial, Government and Industrial Solutions Sector of Motorola, Inc. and (ii) another subsidiary of the Company was awarded a \$655,000 contract to replace outmoded motorist emergency call box stations in the Posey/Webster Tubes located in Alameda, California.

Cost of Goods Sold

Costs of goods sold, which relates to product sales and related service fee income increased to \$278,353 for the three-month period ended June 30, 2003 from nil for the three-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Other Expenses

Total other expenses from continuing operations increased to \$682,297 for the three-month period ended June 30, 2003 from \$383,164 for the three-month period ended June 30, 2002.

See Notes to Consolidated Financial Statements

Selling expenses increased to \$17,091 for the three-month period ended June 30, 2003 from nil for the three-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Compensation and related costs increased to \$313,704 for the three-month period ended June 30, 2003 from \$168,716 for the three-month period ended June 30, 2002 due to the acquired operations and related increase in personnel, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

General and administrative expenses increased to \$340,419 for the three-month period ended June 30, 2003 from \$146,916 for the three-month period ended June 30, 2002 due to the costs associated with the acquisition and related operations of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc., and the costs associated with the private financing, both completed in April 2003.

Other Items

Edgar Filing: CNE GROUP INC - Form 10QSB

Amortization of debt discount increased to \$116,500 for the three-month period ended June 30, 2003 from \$7,442 for the three-month period ended June 30, 2002 due to cessation of amortization of the debt discount related to debentures payable and the commencement of amortization of the debt discount (\$699,000) related to the 10% subordinated notes over a period of one year.

Interest expense increased to \$148,901 for the three-month period ended June 30, 2003 from \$87,136 for the three-month period ended June 30, 2002 due primarily to the issuance of the Company's 10% and 8% subordinated notes in April 2003.

Gain on fixed assets destroyed in catastrophe decreased to nil for the three-month period ended June 30, 2003 from \$20,887 for the three-month period ended June 30, 2002 due to the destruction of the World Trade Center where the Company was headquartered.

Operating Loss

On a pre-tax basis, we had a loss of \$666,620 for the three-month period ended June 30, 2003 from continuing operations compared with a loss of \$398,427 for the three-month period ended June 30, 2002.

Our loss from continuing operations for the three-month period ended June 30, 2003 was \$666,620 compared with a loss from continuing operations of \$398,427 for the three-month period ended June 30, 2002. For the three-month period ended June 30, 2003, loss per common share from continuing operations, basic and diluted, was \$.10 per share. For the three-month period ended June 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.07 per share.

See Notes to Consolidated Financial Statements

22

Our net loss for the three-month period ended June 30, 2003 was \$666,620 compared with a net loss of \$398,427 for the three-month period ended June 30, 2002. For the three-month period ended June 30, 2003, net loss per common share, basic and diluted, was \$.10 per share. For the three-month period ended June 30, 2002, net loss per common share, basic and diluted, was \$.07 per share.

Six-Month Period Ended June 30, 2003 Compared to the Six-Month Period Ended June 30, 2002

Revenues

Total revenues from continuing operations increased to \$604,470 for the six-month period ended June 30, 2003 from \$133,116 for the six-month period ended June 30, 2002.

Product sales income increased to \$356,093 for the six-month period ended June 30, 2003 from nil for the six-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Service fee income increased to \$168,519 for the six-month period ended June 30, 2003 from nil for the six-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its

Edgar Filing: CNE GROUP INC - Form 10QSB

subsidiaries and Econo-Comm, Inc.

Internet related income decreased to \$79,858 for the six-month period ended June 30, 2003 from \$133,116 for the six-month period ended June 30, 2002 as the operations of our subsidiary, CareerEngine, Inc. have been significantly reduced since January 2001.

In July 2003, (i) a subsidiary of the Company entered into a product supply, license and distribution agreement for its wireless call box products with the Commercial, Government and Industrial Solutions Sector of Motorola, Inc. and (ii) another subsidiary of the Company was awarded a \$655,000 contract to replace outmoded motorist emergency call box stations in the Posey/Webster Tubes located in Alameda, California.

Cost of Goods Sold

Costs of goods sold, which relates to product sales and related service fee income increased to \$278,353 for the six-month period ended June 30, 2003 from nil for the six-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Other Expenses

Total other expenses from continuing operations increased to \$882,317 for the six-month period ended June 30, 2003 from \$752,0224 for the six-month period ended June 30, 2002.

See Notes to Consolidated Financial Statements

23

Selling expenses increased to \$17,091 for the six-month period ended June 30, 2003 from \$10,000 for the six-month period ended June 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

Compensation and related costs increased to \$403,935 for the six-month period ended June 30, 2003 from \$356,503 for the six-month period ended June 30, 2002 due to the acquired operations and related increase in personnel, in April 2003, of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc.

General and administrative expenses increased to \$438,021 for the six-month period ended June 30, 2003 from \$251,591 for the six-month period ended June 30, 2002 due to the costs associated with the acquisition and related operations of SRC Technologies, Inc. and its subsidiaries and Econo-Comm, Inc., and the costs associated with the private financing, both completed in April 2003.

Other Items

Amortization of debt discount increased to \$116,500 for the six-month period ended June 30, 2003 from \$14,884 for the six-month period ended June 30, 2002 due to cessation of amortization of the debt discount related to debentures payable and the commencement of amortization of the debt discount (\$699,000) related to the 10% subordinated notes over a period of one year.

Interest expense increased to \$236,843 for the six-month period ended June

Edgar Filing: CNE GROUP INC - Form 10QSB

30, 2003 from \$173,851 for the six-month period ended June 30, 2002 due primarily to the issuance of the Company's 10% and 8% subordinated notes in April 2003.

Gain on fixed assets destroyed in catastrophe decreased to nil for the six-month period ended June 30, 2003 from \$152,934 for the six-month period ended June 30, 2002 due to the destruction of the World Trade Center where the Company was headquartered.

Reversal of Directors fees decreased to \$55,000 for the six-month period ended June 30, 2003 from nil for the six-month period ended June 30, 2002. This amount relates to the forgiveness of fees earned by the outside Directors and their agreement to forego these fees until further notice.

Operating Loss

On a pre-tax basis, we had a loss of \$909,543 for the six-month period ended June 30, 2003 from continuing operations compared with a loss of \$599,707 for the six-month period ended June 30, 2002 from continuing operations primarily due to start-up expenses associated with the acquisition of SRC Technologies, Inc. and its subsidiaries and the related private financing.

See Notes to Consolidated Financial Statements

24

Our loss from continuing operations for the six-month period ended June 30, 2003 was \$909,543 compared with a loss from continuing operations of \$604,957 for the six-month period ended June 30, 2002. For the six-month period ended June 30, 2003, loss per common share from continuing operations, basic and diluted, was \$.15 per share. For the six-month period ended June 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.11 per share.

Our income from discontinued operations for the six-month period ended June 30, 2003 was nil compared with income from discontinued operations of \$3,712,884 for the six-month period ended June 30, 2002 due primarily to the transfer of title to the six theaters leased to Carmike Cinemas, Inc. by the Company to the banks in payment of the related non-recourse debt, and the consequential recognition of the related gain representing the excess of liabilities over the carrying value of the theaters. For the six-month period ended June 30, 2003, income per common share from discontinued operations, basic and diluted, was nil per share. For the six-month period ended June 30, 2002, income per common share from discontinued operations, basic and diluted, was \$.67 per share.

Our net loss for the six-month period ended June 30, 2003 was \$909,543 compared with net income of \$3,107,927 for the six-month period ended June 30, 2002. For the six-month period ended June 30, 2003, net loss per common share, basic and diluted, was \$.15 per share. For the six-month period ended June 30, 2002, net income per common share, basic and diluted, was \$.56 per share.

B. Liquidity and Capital Resources

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows and has a working capital deficit. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence

Edgar Filing: CNE GROUP INC - Form 10QSB

is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. However, there is no assurance that the Company will achieve profitable operations or cash flow.

On April 23, 2003, the Company also effected a private financing pursuant to which it issued notes (the "Notes") in the aggregate principal amount of \$1,000,000, of which \$650,000 was from the officers of the Company, and 3,124,350 ten year Class B Warrants, each to purchase one share of its Common Stock at \$0.50 per share. The Notes bear interest at the annual rate of 10% payable quarterly and are due on April 30, 2004. The Warrants are non-dilutive until the Notes have been repaid. The due date of the Notes may be extended at the Company's option for an additional year in consideration for the issuance of 10-year warrants to purchase 5% of the Company's then outstanding common stock at \$0.50 per share. These Warrants will also be non-dilutive until the Notes have been repaid. In addition, the Company valued the warrants at \$699,000 which is being accounted for as debt discount and is being amortized ratably over the one-year term of the Notes.

See Notes to Consolidated Financial Statements

25

The Company is using the funds obtained from this financing to pay certain ECI notes payable and for working capital. The financing was effected pursuant to the exemption from the registration provisions of the Securities Act of 1993 provided by Section 4(2) thereof.

Management believes that such working capital deficit, losses and negative operating cash flows will ultimately be positively addressed by (i) the acquisitions and related financing disclosed within these financial statements as of June 30, 2003 and 2002 and the three month periods then ended and (ii) the expected results of our current fund raising activities.

We do not have any material commitments for capital expenditures as of June 30, 2003.

C. American Stock Exchange

The Company has sustained losses from continuing operations for five of its most recent fiscal years and, accordingly, pursuant to certain requirements of the American Stock Exchange the Company must have Stockholders' Equity or Capital in excess of \$6,000,000 to meet the Exchange's continuing listing requirements. At June 30, 2003 the Company's Capital was \$2,069,635.

Capital at June 30, 2003	\$	2,069,635
Effect of settlement of tax assessment payable		895,622
Effect of debentures payable conversion		2,587,500
Effect of sale of subsidiary		590,000

Capital at June 30, 2003, as adjusted by the Subsequent Events as per Note 13 of the financial statements filed with this Form 10-QSB		\$ 6,142,757
		=====

Edgar Filing: CNE GROUP INC - Form 10QSB

The Company is actively seeking additional equity and/or debt financing for its business operations.

D. Inflation

The Company believes that inflation does not significantly impact its current operations.

Item 3. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-QSB has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date they completed their evaluation.

See Notes to Consolidated Financial Statements

26

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is a party to various vendor related litigations. Based on the advise of legal counsel, the Company has accrued a liability of approximately \$100,000.

Item 2. Changes in Securities and Use of Proceeds.

During the three months ended June 30, 2003, the Company issued notes and warrants in a private transaction pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933. For information on these issuances, see "Part I - Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." The Company issued preferred stock, common stock, warrants and notes in connection with its acquisition of SRC and ECI pursuant to the exemption from registration provided by Regulation D promulgated under the Securities Act. For information on these issuances, see "Part II - Item 5: Other Information."

Item 3. Defaults in Senior Securities.

None

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

None

Item 5. Other Information.

Edgar Filing: CNE GROUP INC - Form 10QSB

Corporate Matters

On April 17, 2003, pursuant to the terms of Section 251(g) of the Delaware General Corporation Law, CareerEngine Network, Inc. ("CareerEngine") became a wholly-owned subsidiary of the Company. Pursuant to this transaction the Company acquired all of the assets of CareerEngine and all former stockholders of CareerEngine became the stockholders of the Company, which is the entity that is now publicly traded on the American and Pacific Stock Exchanges under the symbol "CNE." As a successor entity to CareerEngine, the Company's shares are deemed to be registered under Section 12(g) of the Securities Exchange Act of 1934 and Rule 12g-3 promulgated thereunder. The shares were issued without registration in reliance upon exemptions provided in Section 3(a)(9) of the Securities Act of 1933 and Rule 145 promulgated thereunder.

In addition, the officers and directors of CareerEngine became the officers and directors of the Company. On April 23, 2003, three directors of the Company resigned (Kevin J. Benoit, Edward A. Martino and James J. Murtha) and their replacements were appointed (Messrs. Michael J. Gutowski and Larry M. Reid

See Notes to Consolidated Financial Statements

27

and Ms. Carol L. Gutowski). Ms. Gutowski is the wife of Mr. Gutowski. Messrs. Gutowski and Reid were also appointed the President and Chief Operating Officer and the Executive Vice President of the Company, respectively. See "Acquisition of all of the outstanding stock of SRC and ECI" below.

Acquisition of all of the outstanding stock of SRC and ECI

SRC

On April 23, 2003, the Company issued to Mr. and Mrs. Gutowski, the former principal common stockholders of SRC, an aggregate of 4,867,937 shares of its non-voting Series C Preferred Stock and a like number of ten year Class C Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The Class C Warrants are not exercisable and are not detachable from the C Preferred Stock prior to 66 months after their issuance.

The Company issued to the other former common stockholders of SRC, including Mr. Reid, an aggregate of 899,976 shares of its Common Stock, 1,697,961 shares of its non-voting Series A Preferred Stock and a like number of ten year non-detachable Class A Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The Class A Warrants are not exercisable and are not detachable from the A Preferred Stock prior to 66 months after their issuance.

The Company issued an aggregate of 440,000 shares of its Series B Preferred Stock to the former holders of the SRC Series B Preferred Stock.

The A Preferred Stock has an aggregate liquidating preference over all other CNE equity of \$1,697,961 and the B Preferred Stock has an aggregate liquidating preference over all other CNE equity except the A Preferred Stock of \$440,000. The C Preferred Stock has no liquidating preference.

ECI

Edgar Filing: CNE GROUP INC - Form 10QSB

On April 23, 2003, the Company issued to Gary Eichsteadt and Thomas Sullivan, the former stockholders of ECI, an aggregate of 4,867,938 shares of its Series C Preferred Stock and a like number of Class C Warrants. In addition, Messrs. Eichsteadt and Sullivan retained certain of ECI's trade receivables aggregating approximately \$100,000. The Company also acquired a patent related to the operation of ECI's business from Mr. Eichsteadt for the aggregate principal amount of \$2,000,000, bearing interest at the annual rate of 8%, payable quarterly, and due on October 31, 2008. Messrs. Eichsteadt and Sullivan remained executive officers ECI.

There were no relationships between the Company or any of its affiliates and any of the sellers of the assets acquired by the Company prior to the acquisition transactions.

See Notes to Consolidated Financial Statements

28

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer

32.1: Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2: Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A statement regarding the computation of per share earnings is omitted because the computation is described in Note 2 of the Notes to Consolidated Financial Statements (Unaudited) in this Form 10-QSB.

(b) Reports on Form 8-K:

During the six months ended June 30, 2003 and the period July 1, 2003 to the date of this Form 10-QSB the Company filed reports on Form 8K on May 6, 2003 as amended on Form 8-K/A on July 7, 2003, on June 30, 2003 as amended on Form 8-K/A on July 7, 2003, and on July 28, 2003. These Form 8-K's and related Form-8K/A's and the Exhibits attached thereto are incorporated herein by reference.

See Notes to Consolidated Financial Statements

29

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: CNE GROUP INC - Form 10QSB

CNE GROUP, INC.

/s/ George W. Benoit

Date: August 19, 2003

George W. Benoit, Chairman of the Board
of Directors, President, and Chief Executive
Officer

/s/ Anthony S. Conigliaro

Date: August 19, 2003

Anthony S. Conigliaro, Vice President and
Chief Financial Officer

See Notes to Consolidated Financial Statements