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CNE GROUP INC  
Form 10QSB  
November 14, 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 September 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 November 14, 2003 -----
Common stock - par value \$.00001	8,890,920 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

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reflect all adjustments (consisting of normal recurring accruals) and 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 nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

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### CNE Group, Inc. and Subsidiaries Consolidated Balance Sheets

	September 30, 2003	December 31, 2002
	----- (Unaudited)	----- (Audited)
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 122,734	\$ 18,000
Accounts receivable, net	250,508	3,000
Subscription receivable (Note 1)	500,000	6,000
Insurance claims receivable		6,000
Inventory	274,724	
Other	7,981	
Total current assets	----- 1,155,947	----- 28,000
Fixed assets, net	462,078	3,000
Intellectual property rights, net	1,520,609	
Goodwill	7,285,894	
Other	87,636	
Total assets	----- \$ 10,512,164 =====	----- \$ 31,000 =====
<b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued expenses	\$ 632,186	\$ 39,000
Interest payable (Notes 5 and 8)	77,215	21,000
Lines of credit	464,291	
Notes payable - other	160,000	
10% Subordinated notes	592,250	
Other	16,075	
Tax assessment payable (Note 6)		91,000
Debentures payable (Notes 5 and 8)		2,400,000
Excess of liabilities over assets of activities to be disposed (Notes 5 and 8)	341,220	
Total current liabilities	----- 2,283,237	----- 3,920,000
Notes payable	28,137	
8% Subordinated notes	1,000,000	
Deferred grant revenue	300,000	29,000
	-----	-----

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Total liabilities	3,611,374	4,21
-----		
Commitments and contingencies (Note 4)		
STOCKHOLDERS' EQUITY		
Preferred stock (Notes 1 and 9)	124	
Common stock (Notes 1 and 10)	101	68
Paid-in surplus	28,230,455	16,29
Accumulated deficit	(18,456,790)	(17,99
-----		
	9,773,890	(1,02
Less, treasury stock, at cost - 1,238,656 shares	(2,873,100)	(2,87
-----		
Total stockholders' equity	6,900,790	(3,89
-----		
Total liabilities and stockholders' equity	\$ 10,512,164	\$ 31
=====		

See Notes to Consolidated Financial Statements

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CNE Group, Inc. and Subsidiaries  
Consolidated Statements of Operations

	Three Months Ended September 30,	
	2003	2002
	(Unaudited)	(Unaudited)
Revenues:		
Product sales	\$ 268,591	\$
Service fee income	244,413	
Internet related income	39,592	\$ 58,702
	-----	-----
	552,596	58,702
Costs of goods sold	294,863	
	-----	-----
Gross profit	257,733	58,702
Other expenses:		
Selling	6,591	
Compensation and related costs	387,467	134,256
General and administrative	341,657	20,373
Depreciation and amortization	70,193	57,890
	-----	-----
	805,908	212,519
Loss from continuing operations before other income and expenses	(548,175)	(153,817)
Amortization of debt discount	(175,750)	(7,442)
Interest expense	(82,320)	(94,841)

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Tax settlement adjustment (Note 6)	895,622		
Gain on fixed assets destroyed in catastrophe (Note 1)			
Reversal of Director fees accrual			
	-----	-----	-----
Income (loss) from continuing operations before income taxes	89,377	(256,100)	
Income tax provision			
	-----	-----	-----
Income (loss) from continuing operations	89,377	(256,100)	
Discontinued operations:			
Income from discontinued operations (Note 3)	533,634		
	-----	-----	-----
Net income (loss)	\$ 623,011	\$ (256,100)	\$
	=====	=====	=====

See Notes to Consolidated Financial Statements

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CNE Group, Inc. and Subsidiaries  
Consolidated Statements of Operations, continued

	Three Months Ended September 30,	
	2003	2002
	(Unaudited)	(Unaudited)
Income (loss) per common share:		
Basic:		
Income (loss) from continuing operations	\$ .01	\$ (.05)
Income from discontinued operations	.07	--
	-----	-----
Net income (loss)	\$ .08	\$ (.05)
	=====	=====
Diluted:		
Income (loss) from continuing operations	\$ .01	\$ (.05)
Income from discontinued operations	.07	--
	-----	-----
Net income (loss)	\$ .08	\$ (.05)
	=====	=====
Weighted average number of common shares outstanding:		
Basic	7,674,253	5,590,944
	=====	=====
Diluted	7,970,808	5,590,944
	=====	=====

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See Notes to Consolidated Financial Statements

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

### Cash flows from operating activities:

Loss from continuing operations

Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:

Depreciation and amortization

Issuance of common stock for services

Amortization of debt discount

Reversal of fees due to Directors

Gain on fixed assets destroyed in catastrophe

Changes in:

Accounts and insurance claims receivable

Inventory

Other assets

Accounts payable and accrued expenses, and other liabilities

Deferred grant revenue

Cash used in continuing operations

Cash provided by discontinued operations

Net cash provided by (used in) operating activities

### Cash flows from investing activities:

Purchase of furniture and equipment

Net cash used in investing activities

### Cash flows from financing activities:

Proceeds from issuance of 10% notes payable

Proceeds from short-term credit arrangements

Principal repayments on notes payable - other

Payment of accounts receivable due Sellers of Econo-Comm, Inc.

Net cash provided by financing activities

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of period

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Cash and cash equivalents at end of period

See Notes to Consolidated Financial Statements

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

Supplemental disclosures of cash flow information related to continuing operations:

Cash paid during the period for:

Interest  
Income taxes

Non-cash investing and financing activities relating to the acquisition of subsidiaries and certain intellectual property rights:

Accounts receivable  
Inventory  
Intellectual property rights  
Goodwill  
Other assets  
Accrued expenses and other liabilities  
8% notes payable  
Issuance of preferred stock  
Issuance of common stock  
Paid in surplus

Non-cash investing and financing activities relating to the conversion of certain notes and debentures, and the sale of common stock:

8% notes payable  
Debentures payable and related interest payable  
Subscription receivable  
Issuance of preferred stock  
Issuance of common stock  
Paid in surplus

See Notes to Consolidated Financial Statements

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

1. Nature of Business and Operations

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### Business

CNE Group, Inc. (the "Company" or "CNE") is a holding company whose primary operating subsidiary is SRC Technologies, Inc. ("SRC"). SRC, also a holding company, is the parent of Connectivity, Inc. ("Connectivity"), Econo-Comm, Inc. (d/b/a Mobile Communications ("ECI"), and U.S. Commlink, Ltd. ("USCL"). Connectivity, ECI and USCL, 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 has 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. 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.

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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 shares 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 shares 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

On April 23, 2003 the Company issued (i) 899,976 shares of its common

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stock, (ii) 1,697,961 shares of its non-voting Series A Preferred Stock and a like number of ten year non-detachable Class A Warrants, (iii) 4,400 shares of its Series B Preferred Stock, and (iv) 9,735,875 shares of its non-voting Series C Preferred Stock and a like number of ten year Class C Warrants, for 100% ownership of SRC and ECI. In addition, ECI's sellers 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 in exchange for notes aggregating \$2,000,000 bearing 8% interest. The details of such transactions are set forth below.

### 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 Series 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 4,400 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.

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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. Mr. Sullivan remained an executive officer ECI. On July 31, 2003, the Company transferred all the stock of ECI to SRC and ECI became a wholly-owned subsidiary of SRC. In addition, the Company transferred its title to the aforementioned patent to SRC.

On May 19, 2003, Mr. Eichsteadt assigned \$1,500,000 of the aforementioned 8% notes equally to Mr. Sullivan, Mr. Gutowski and Mrs. Gutowski. Further on August 31, 2003, Mr. and Mrs. Gutowski converted their notes aggregating \$1,000,000 into 1,000,000 shares of the Company's Series AA



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### Preferred Stock.

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.

### Private Financings:

1. On April 23, 2003, the Company also completed 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.
2. On September 17, 2003, the Company sold 1,250,000 shares of its Common Stock at \$0.40 per share to an existing noteholder and shareholder of the Company. At September 30, 2003 a subscription receivable related to this sale of common stock, in the amount of \$500,000, was recorded. The funds were received by the Company on October 10, 2003.

The Company is using the funds obtained from these financings 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 1933 provided by Section 4(2) thereof.

### 2003 Stock Incentive Plan

On April 30, 2003 the Board of Directors of the Company approved the 2003 Stock Incentive Plan, which provided, among other matters, for incentive and non-qualified stock options to purchase 3,500,000 shares of Common Stock. On November 4, 2003, the 2003 Stock Incentive Plan was amended by the Board of Directors of the Company to increase the number of incentive and non-qualified stock options that may be granted from 3,500,00 to 5,000,000 shares of Common Stock. The purpose of the 2003 Stock Incentive Plan, as amended (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.

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On April 30, 2003, incentive stock options to purchase 1,987,500 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to five officers (1,800,000) and one employee (187,500) of the Company at a weighted average exercise price of \$1.32 per share. On November 4, 2003, incentive stock options to purchase 950,000 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to three officers of the Company at a weighted average exercise price of \$1.09 per share. On April 30, 2003 (605,000) and November 4, 2003 (220,000), non-qualified stock options to purchase an aggregate 825,000 shares of the Company's common stock were granted by the Board of Directors of the Company to certain independent contractors of the Company. The Company recorded a charge of \$96,250 in general and administrative expense, relating to the 385,000 options that were vested at September 30, 2003, on its Statement of Operations for the nine months ended September 30, 2003. No options granted have been exercised.

The aforementioned actions of the Board of Directors and the Incentive Compensation Committee of the Board of Directors is subject to the ratification of the 2003 Plan by a majority of the stockholders of the Company at the Company's next Annual Meeting of Stockholders which will be on December 18, 2003 pursuant to a Notice of Annual Meeting of Stockholders to be mailed on or about November 18, 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 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 nine months ended September 30, 2002. The Company also had insurance coverage for other than assets destroyed. As of September 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, and August 2003, the Company received grants aggregating \$300,000. 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. The Company has no intention of relocating outside of New York City.

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### Going Concern

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows and has a working capital deficit at both September 30, 2003 and December 31, 2002. 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 positive cash flow.

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

### 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 September 30, 2003 and the results of its operations and its cash flows for the three-month and nine-month periods ended September 30, 2003 and 2002. The financial statements as of September 30, 2003 and for the three and nine months then ended are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

#### 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.

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

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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 September 30, 2003 the Company maintained balances below such limits.

The Company's sales are primarily provided to customers throughout the United States. There have been no concentrations of ten percent (10%) or more 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 is stated at the lower of cost (first-in, first-out) or market. At September 30, 2003 the Company's inventory consisted of the following:

Raw materials	\$ 185,723
Work in progress	69,731
Finished goods	19,270
	-----
	\$ 274,724
	=====

### Startup Activities

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

### Income (Loss) Per Share

Basic and diluted net income (loss) per common share have been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share (basic EPS) is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. Diluted earnings per share (diluted EPS) is computed by dividing net income (loss) used in determining basic EPS by the weighted average number of common shares outstanding during the period, plus the incremental shares, if any, that would have been outstanding upon the assumed exercise of dilutive stock options.

### 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,

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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 September 30, 2003, the Company has a stock-based employee compensation plan - the 2003 Plan. Two of Company's subsidiaries each had separate stock-based employee compensation plans. These plans were contractually terminated by the Company upon the acquisition of SRC and ECI on April 23, 2003. Furthermore, on March 14, 2003 all recipients of options granted pursuant to these plans rescinded all 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.

	Nine Months End September 30,	
	2003	
Net (loss) income, as reported	\$ (286,532)	\$
Less, Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	0	
Pro forma net (loss) income	\$ (286,532)	\$
Net (loss) income per share:		
As reported:		
Basic	\$ (0.04)	\$
Diluted	\$ (0.04)	\$
Pro forma:		
Basic	\$ (0.04)	\$
Diluted	\$ (0.04)	\$

On April 30, 2003, incentive stock options to purchase 1,987,500 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to five officers (1,800,000) and one employee (187,500) of the Company at a weighted average exercise price of \$1.32 per share. On November 4, 2003, incentive stock options to purchase 950,000 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to three officers of the Company at a weighted average exercise price of \$1.09 per share. On April 30, 2003 (605,000) and November 4, 2003 (220,000), non-qualified stock options to purchase an aggregate 825,000 shares of the Company's common stock were granted by the Board of Directors of the Company to certain independent contractors of the Company. The Company recorded a charge of \$96,250, relating to the 385,000 options that were vested at September 30, 2003, on its Statement of Operations for the nine months ended September 30, 2003. See Note 1 - Nature of Business and Operations: 2003 Stock Incentive Plan. No options granted have been exercised.

#### 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 nine month periods ended September 30, 2003 and the year ended December 31, 2002.

### 3. Discontinued Operations

#### 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 recognized a gain amounting to approximately \$533,634.

#### Gain of Extinguishment of Debt

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

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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 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.

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

	Three Months Ended September 30,		Nine Mont Ended September
	2003	2002	2003
Revenues:			
Rental income		\$ --	
Gain on sale of subsidiary	\$ 533,634		\$ 533,634
Gain on extinguishment of debt			
Common membership interest transfer fee			
	533,634		533,634
Expenses:			
Interest			
Other			
	\$ 533,634	\$ --	\$ 533,634

4. Litigation

Two of the Company's subsidiaries (see Footnote 8: Excess of Liabilities over Assets of Activities to be Disposed) are parties to various vendor related litigation of which the related liabilities have been recorded within these consolidated financial statements at September 30, 2003. 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

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satisfy the obligations of these two subsidiaries to such creditors.

### 5. Conversion of Debentures Payable

In August and September 2003, 95.83% of the holders of the \$2,400,000 Debentures Payable issued by a subsidiary of the Company elected to (i) convert the entire outstanding principal balance of the debentures amounting to \$2,300,000, (ii) return 575,500 of the related 600,000 outstanding B Warrants of the Company, and (iii) waive

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all accrued and unpaid interest relating thereto (\$345,000), in consideration of (i) 1,150,000 shares of the common stock of the Company and (ii) 1,150,000 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 increased the Company's Common Stock, par value \$.00001, by \$12.00, and increased Paid-in-surplus by \$2,644,988.

### 6. 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 provided for payment of \$50,000 cash on or before October 14, 2003. The \$50,000 cash was paid in July and September 2003. The Company recognized an adjustment to income in the amount of \$895,622 relating to this transaction in the three and nine month periods ended September 30, 2003.

### 7. Director Fees

At September 30, 2003, the Company's outside directors agreed to forego any previously accrued and unpaid directors' fees earned through December 31, 2001 and agreed to forgo compensation through September 30, 2003. The reversal of previously accrued fees has been reflected in the Company's Consolidated Statement of Operations for the nine-month period ended September 30, 2002. Due to the nature of the Company's operations prior to the acquisitions and related financing in April, 2003, appropriate compensation was deemed to be a nominal amount by the Company. Commencing director October 1, 2003, the Company will pay each of its three outside directors a fee of \$2,000 per month.

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

A subsidiary of the Company has remaining liabilities of \$370,541 that are substantially in excess of its remaining assets of \$29,321. The subsidiary created a trust for the benefit of its creditors. The assets of the 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 Trustee of the trust is required to utilize such remaining assets to satisfy the remaining liabilities of the subsidiary. 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 subsidiary cannot reach the assets of the Company or any of its other subsidiaries to satisfy the obligations of this subsidiary to such creditors. The Company



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expects that the creditors of this subsidiary will look directly to the Trustee and the remaining assets of the trust for the satisfaction of their claims and that the Company will be freed from dealing with these issues.

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

	September 30, 2003
	-----
Transferred liabilities:	
Accounts payable and accrued expenses	\$ 255,541
Interest payable	15,000
Debentures payable	100,000
	-----
	370,541
Transferred assets:	(29,321)
	-----
Excess of liabilities over assets of activities to be disposed	\$ 341,220
	=====

9. Preferred Stock

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

	September 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 AA	1,000,000	--
Series A	1,697,961	--
Series B	4,400	--
Series C	9,735,875	--
Series E	--	--
	-----	-----
Total	12,438,236	--
	=====	=====

10. Common Stock

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

September 30, 2003	December 31, 2002
-----	-----

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Par value per share:	\$ .00001	\$ .10000
Authorized number of shares	40,000,000	10,000,000
Issued and outstanding number of shares	10,129,567	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 Goodwill. 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, ECI and USCL, 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

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acquisitions and related financing, SRC 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 from its respective acquisition dates. The following unaudited pro forma information presents a summary of our 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 nine month periods ended September 30, 2002 and on January 1, 2003 for the three and nine month periods ended September 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 September 30,	
	2003	2002
Revenues	\$ 552,596	\$ 794,399
Expenses	1,358,841	1,565,223
Loss from continuing operations	\$ (806,245)	\$ (770,824)
Loss from continuing operations per share:		
Basic	\$ (0.11)	\$ (0.14)
Diluted	\$ (0.11)	\$ (0.14)

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### 12. American Stock Exchange Listing

Pursuant to certain requirements of the American Stock Exchange the Company must (i) continuously maintain its Stockholders' Equity in excess of \$6,000,000, and (ii) hold, annually, a meeting of its stockholders, to meet the Exchange's continuing listing requirements. At June 30, 2003, the Company's Stockholders' Equity was \$2,069,635 however, at September 30, 2003 the Company's Stockholders' Equity was \$6,900,790 and, accordingly, the Company believes it is currently in compliance with this requirement. The Company's last annual meeting of its stockholders was June 1, 2000, however, pursuant to a Preliminary Proxy Statement filed with the Securities and Exchange Commission on November 7, 2003, the Company anticipates its 2003 Annual Meeting of Stockholders will be held on December 18, 2003 so that it will also comply with this other requirement. During 2004, the Company will be periodically reviewed by the Exchange to insure its continuing compliance with its requirements.

### 13. Conversion of 8% Promissory Notes

On August 31, 2003, the holders who are also directors and officers of the Company, converted \$1,000,000 of the Company's 8% Promissory Notes into 1,000,000 shares of the Company's Series AA Preferred Stock, par value \$.00001 per share. The Series AA Preferred Stock has a liquidating preference to all other equity securities of the Company. It also has an 8% cumulative dividend, payable in common stock or cash.

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## 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 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 subsidiary is SRC Technologies, Inc. ("SRC"). SRC, also a holding company, is the parent of Connectivity, Inc. ("Connectivity"), Econo-Comm, Inc. (d/b/a Mobile Communications ("ECI"), and U.S. Commlink, Ltd. ("USCL"). Connectivity, ECI and USCL, 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

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government institutions, and other vertical markets throughout the United States. SRC has 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 the Board of Directors of the Company approved the 2003 Stock Incentive Plan, which provided, among other matters, for incentive and non-qualified stock options to purchase 3,500,000 shares of Common Stock. On November 4, 2003, the 2003 Stock Incentive Plan was amended by the Board of Directors of the Company to increase the number of incentive and non-qualified stock options that may be granted from 3,500,00 to 5,000,000 shares of Common Stock. The purpose of the 2003 Stock Incentive Plan, as amended (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

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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, incentive stock options to purchase 1,987,500 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to five officers (1,800,000) and one employee (187,500) of the Company at a weighted average exercise price of \$1.32 per share. On November 4, 2003, incentive stock options to purchase 950,000 shares of the Company's common stock were granted by the Incentive Compensation Committee of the Board of Directors to three officers of the Company at a weighted average exercise price of \$1.09 per share. On April 30, 2003 (605,000) and November 4, 2003 (220,000), non-qualified stock options to purchase an aggregate 825,000 shares of the Company's common stock were granted by the Board of Directors of the Company to certain independent contractors of the Company. The Company recorded a charge of \$96,250, relating to the 385,000 options that were vested at September 30, 2003, on its Statement of Operations for the nine months ended September 30, 2003. No options granted have been exercised.

The aforementioned actions of the Board of Directors and the Incentive Compensation Committee of the Board of Directors is subject to the ratification of the 2003 Plan by a majority of the shareholders of the Company at the Company's next Annual Meeting of Stockholders which will be on December 18, 2003 pursuant to a Notice of Annual Meeting of Stockholders to be mailed approximately November 18, 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 injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements,

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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 nine months ended September 30, 2002. The Company also had insurance coverage for other than assets destroyed. As of September 30, 2003, all outstanding insurance claims relating to the catastrophe have been received.

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In addition, the Company applied for governmental assistance grants related to the catastrophe. In April and September 2002, and August 2003, the Company received grants aggregating \$300,000. 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 nine-month period ended September 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.

In addition, a significant judgment made by management in the preparation of the Company's financial statements is the determination of impairment losses relating to 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. This determination is made annually.

In accordance with SAB Topic 4, Item E, the Company is presenting the Subscription Receivable as an asset as payment was received prior to the issuance of these financial statements.

### A. Results of Operations:

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

### Revenues

Total revenues from continuing operations increased to \$552,596 for the three-month period ended September 30, 2003 from \$58,702 for the three-month period ended September 30, 2002, as a result of the Company's acquisitions of SRC and its subsidiaries in April 2003.

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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. In October 2003, a subsidiary of the Company received a "Notice to Proceed" from the Nevada Department of Transportation relating to a \$488,000 contract for the installation of wireless emergency callboxes and video poles on Interstate-15 from the California state border to the Las Vegas city limits. These two aforementioned contracts will significantly increase the Company's revenues in the three-month period ending December 31, 2003.

Product sales income increased to \$268,591 for the three-month period ended September 30, 2003 from nil for the three-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

Service fee income increased to \$244,413 for the three-month period ended September 30, 2003 from nil for the three-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

Internet related income decreased to \$39,592 for the three-month period ended September 30, 2003 from \$58,702 for the three-month period ended September 30, 2002 as the operations of our subsidiary, CareerEngine, Inc., have continued to decline.

### Cost of Goods Sold

Costs of goods sold, which relates to product sales and related service fee income increased to \$294,863 for the three-month period ended September 30, 2003 from nil for the three-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

### Other Expenses

Total other expenses from continuing operations increased to \$805,908 for the three-month period ended September 30, 2003 from \$212,519 for the three-month period ended September 30, 2002.

Selling expenses increased to \$6,591 for the three-month period ended September 30, 2003 from nil for the three-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

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Compensation and related costs increased to \$387,467 for the three-month period ended September 30, 2003 from \$134,256 for the three-month period ended

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September 30, 2002 due to the acquired operations and related increase in personnel, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

General and administrative expenses increased to \$341,657 for the three-month period ended September 30, 2003 from \$20,373 for the three-month period ended September 30, 2002 due to the costs associated with the acquisition and related operations of SRC Technologies, Inc. and its subsidiaries, and the costs associated with the two private financings, primarily completed in April and September 2003.

Depreciation and amortization expenses increased to \$70,193 for the three month period ended September 30, 2003 from \$57,890 for the three month period ended September 30, 2002, due to the increase in depreciation and amortization expense relating to the fixed assets and patents associated with the acquisition of SRC Technologies, Inc. and its subsidiaries.

### Other Items

Amortization of debt discount increased to \$175,750 for the three-month period ended September 30, 2003 from \$7,442 for the three-month period ended September 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 decreased to \$82,320 for the three-month period ended September 30, 2003 from \$94,841 for the three-month period ended September 30, 2002 due primarily to the issuance of the Company's 10% and 8% subordinated notes in April 2003 and the cessation of interest expense on a subsidiary's 12% Debentures Payable and Tax Assessment Payable.

Tax Settlement adjustment of \$895,622 relates to the accepted and paid Offer in Compromise with the Internal Revenue Service (\$50,000) pertaining to a \$945,000 tax liability of a subsidiary of the Company.

### Operating Loss

On a pre-tax basis, we had income from continuing operations of \$89,377 for the three-month period ended September 30, 2003 compared with a loss from continuing operations of \$256,100 for the three-month period ended September 30, 2002 primarily due to the effect of (i) the tax settlement adjustment and (ii) start-up expenses associated with the acquisition of SRC Technologies, Inc. and its subsidiaries and the related private financings.

Our income from continuing operations for the three-month period ended September 30, 2003 was \$89,377 compared with a loss from continuing operations of \$256,100 for the three-month period ended September 30, 2002 primarily due to the effect of (i) the tax settlement adjustment and (ii) start-up expenses associated with the acquisition of SRC Technologies, Inc. and its subsidiaries and the related private financings. For the three-month period ended September 30, 2003, income per common share from continuing operations,

basic and diluted, was \$.01 per share. For the three-month period ended September 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.05 per share.

Our income from discontinued operations for the three-month period ended September 30, 2003 was \$533,634 compared with nil from discontinued operations for the three-month period ended September 30, 2002 due to a gain on the sale of a subsidiary of the Company. For the three-month period ended September 30, 2003, income per common share from discontinued operations, basic and diluted, was \$.07 per share. For the three-month period ended September 30, 2002, income per common share from discontinued operations, basic and diluted, was nil per share.

Our net income for the three-month period ended September 30, 2003 was \$623,011 compared with a net loss of \$256,100 for the three-month period ended September 30, 2002. For the three-month period ended September 30, 2003, net income per common share, basic and diluted, was \$.08 per share. For the three-month period ended September 30, 2002, net loss per common share, basic and diluted, was \$.05 per share.

Nine-Month Period Ended September 30, 2003 Compared to the Nine-Month Period Ended September 30, 2002

#### Revenues

Total revenues from continuing operations increased to \$1,157,066 for the nine-month period ended September 30, 2003 from \$191,118 for the nine-month period ended September 30, 2002.

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. In October 2003, a subsidiary of the Company received a "Notice to Proceed" from the Nevada Department of Transportation relating to a \$488,000 contract for the installation of wireless emergency callboxes and video poles on Interstate-15 from the California state border to the Las Vegas city limits. These two aforementioned contracts will significantly increase the Company's revenues in the three-month period ending December 31, 2003.

Product sales income increased to \$624,684 for the nine-month period ended September 30, 2003 from nil for the nine-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

Service fee income increased to \$412,932 for the nine-month period ended September 30, 2003 from nil for the nine-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

Internet related income decreased to \$119,450 for the nine-month period



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ended September 30, 2003 and \$191,118 for the nine-month period ended September 30, 2002 as the operations of our subsidiary, CareerEngine, Inc. have continued to decline.

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### Cost of Goods Sold

Costs of goods sold, which relates to product sales and related service fee income increased to \$573,216 for the nine-month period ended September 30, 2003 from nil for the nine-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

### Other Expenses

Total other expenses from continuing operations increased to \$1,688,225 for the nine-month period ended September 30, 2003 from \$948,957 for the nine-month period ended September 30, 2002.

Selling expenses increased to \$23,682 for the nine-month period ended September 30, 2003 from \$10,000 for the nine-month period ended September 30, 2002 due to the acquired operations, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

Compensation and related costs increased to \$791,402 for the nine-month period ended September 30, 2003 from \$490,759 for the nine-month period ended September 30, 2002 due to the acquired operations and related increase in personnel, in April 2003, of SRC Technologies, Inc. and its subsidiaries.

General and administrative expenses increased to \$779,678 for the nine-month period ended September 30, 2003 from \$256,380 for the nine-month period ended September 30, 2002 due to the costs associated with the acquisition and related operations of SRC Technologies, Inc. and its subsidiaries, and the costs associated with the private financings, primarily completed in April and September 2003.

Depreciation and amortization expenses decreased to \$93,463 for the nine-month period ended September 30, 2003 from \$191,818 for the nine-month period ended September 30, 2002, due to the increase in depreciation and amortization expense relating to the fixed assets and patents associated with the acquisition of SRC Technologies, Inc. and its subsidiaries, and the decrease in depreciation due to certain assets of the Company becoming fully depreciated.

### Other Items

Amortization of debt discount increased to \$292,250 for the nine-month period ended September 30, 2003 from \$22,326 for the nine-month period ended September 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 \$319,163 for the nine-month period ended September 30, 2003 from \$283,576 for the nine-month period ended September 30, 2002 due primarily to the issuance of the Company's 10% and 8% subordinated notes in April 2003 and the cessation of interest expense on a

subsidiary's 12% Debentures Payable and Tax Assessment Payable in July and August 2003.

Tax Settlement adjustment of \$895,622 relates to the accepted and paid Offer in Compromise with the Internal Revenue Service (\$50,000) pertaining to a \$945,000 tax liability of a subsidiary of the Company.

Gain on fixed assets destroyed in catastrophe decreased to nil for the nine-month period ended September 30, 2003 from \$152,934 for the nine-month period ended September 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 nine-month period ended September 30, 2003 from nil for the nine-month period ended September 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. The Company will compensate its outside Directors, commencing October 1, 2003, at a monthly rate of \$2,000 per Director.

#### Operating Loss

On a pre-tax basis, we had a loss from continuing operations of \$820,166 for the nine-month period ended September 30, 2003 compared with a loss from continuing operations of \$855,807 for the nine-month period ended September 30, 2002.

Our loss from continuing operations for the nine-month period ended September 30, 2003 was \$820,166 compared with a loss from continuing operations of \$861,057 for the nine-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, loss per common share from continuing operations, basic and diluted, was \$.12 per share. For the nine-month period ended September 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.15 per share.

Our income from discontinued operations for the nine-month period ended September 30, 2003 was \$533,634 compared with income from discontinued operations of \$3,712,884 for the nine-month period ended September 30, 2002 due to a gain on the sale of a subsidiary of the Company in 2003 and primarily a gain on the extinguishment of debt in 2002. For the three-month period ended September 30, 2003, income per common share from discontinued operations, basic and diluted, was \$.08 per share. For the three-month period ended September 30, 2002, income per common share from discontinued operations, basic and diluted, was \$.66 per share.

Our net loss for the nine-month period ended September 30, 2003 was \$286,532 compared with net income of \$2,851,827 for the nine-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, net loss per common share, basic and diluted, was \$.048 per share. For the nine-month period ended September 30, 2002, net income per common share, basic and diluted, was \$.51 per share.

#### B. Liquidity and Capital Resources

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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.

On April 23, 2003, the Company completed 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.

In addition, on September 17, 2003, the Company sold 1,250,000 shares of its Common Stock at \$0.40 per share to an existing noteholder and shareholder of the Company. At September 30, 2003 a subscription receivable related to this sale of common stock, in the amount of \$500,000, was recorded. The funds were received by the Company on October 10, 2003.

The Company is using the funds obtained from this financing to pay certain ECI notes payable and for working capital. The financings 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 addressed by (i) the acquisitions and related financing disclosed within these financial statements as of September 30, 2003 and 2002 and the three month periods then ended and (ii) the expected results of our continuing fund raising activities.

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

### C. New Accounting Standards

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for

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stock-based employee compensation. The adoption of this pronouncement did not have a material effect on the consolidated financial statements as the Company continues to apply the intrinsic value method in accordance with APB No. 25.

### D. American Stock Exchange

Pursuant to certain requirements of the American Stock Exchange the Company must (i) continuously maintain its Stockholders' Equity in excess of \$6,000,000, and (ii) hold, annually, a meeting of its stockholders, to meet the Exchange's continuing listing requirements. At June 30, 2003, the Company's Stockholders' Equity was \$2,069,635 however, at September 30, 2003 the Company's Stockholders' Equity was \$6,900,790 and, accordingly, the Company believes it is currently in compliance with this requirement. The Company's last annual meeting of its stockholders was June 1, 2000, however, pursuant to a Preliminary Proxy Statement filed with the Securities and Exchange Commission on November 7, 2003, the Company anticipates its 2003 Annual Meeting of Stockholders will be held on December 18, 2003 so that it will also comply with this other requirement. During 2004, the Company will be periodically reviewed by the Exchange to insure its continuing compliance with its requirements.

### E. 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.

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## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings.

None

#### Item 2. Changes in Securities and Use of Proceeds.

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During the three months ended September 30, 2003, the Company issued common stock, notes and warrants in private transactions 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

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### 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 nine months ended September 30, 2003 and the period October 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, on July 28, 2003, September 18, 2003 and September 29, 2003. These Form 8-K's and related Form-8K/A's and the Exhibits attached thereto are incorporated herein by reference.

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### 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

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authorized.

CNE GROUP, INC.

/s/ George W. Benoit

Date: November 14, 2003

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

/s/ Anthony S. Conigliaro

Date: November 14, 2003

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Anthony S. Conigliaro, Vice President and  
Chief Financial Officer