

Edgar Filing: CNE GROUP INC - Form 10KSB

CNE GROUP INC  
Form 10KSB  
April 15, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2004 \_\_\_\_\_

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No fee required)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9224  
-----

CNE Group, Inc.

-----  
(Name of Small Business Issuer in Its Charter)

DELAWARE

56-2346563

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

200 West 57th Street, Suite 507, New York, NY

10019

-----  
(Address of Principal Executive Offices)

(Zip Code)

212-977-2200

-----  
(Issuer's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class  
-----

Name of Each Exchange  
on Which Registered  
-----

Common stock - par value \$0.00001

American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:

None

-----  
(Title of Class)

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 X No

Edgar Filing: CNE GROUP INC - Form 10KSB

---

(Cover page 1 of 2 pages)

2

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.\_\_\_\_\_

Issuer's revenues for 2004, its most recent fiscal year, were \$2,675,986.

As of April 8, 2005, the aggregate market value of voting stock held by non-affiliates of the Issuer was approximately \$2,178,600.  
-----

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

Class -----	Outstanding at April 8, 2005 -----
Common stock - par value \$0.00001 -----	10,790,915 -----

DOCUMENTS INCORPORATED BY REFERENCE

None.

(Cover page 2 of 2 pages)

3

PART I

Forward Looking Statements  
-----

Certain statements in this Annual Report Form 10-KSB 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

- o "may, "
- o "will, "
- o "would, "
- o "should, "
- o "could, "

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o "expect,"
- o "intend,"
- o "plan,"
- o "anticipate,"
- o "believe,"
- o "estimate,"
- o "predict,"
- o "potential" or
- o "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, including the risks outlined under the Risk Factors set forth herein. These factors may cause our actual results to differ materially from any forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform those statements to actual results or to changes in our expectations.

4

### Item 1. Description of Business.

The Company was incorporated under the laws of the State of Delaware in 2003. Unless the context requires otherwise, the term "Company," "our," or "we" refers to CNE Group, Inc. and its wholly-owned subsidiaries SRC Technologies, Inc., U.S. Commlink, Ltd. and CareerEngine Network, Inc.

#### General -----

We are a holding company whose primary operating subsidiaries are SRC Technologies, Inc. ("SRC") and U.S. Commlink, Ltd. ("US Commlink"). SRC has two operating subsidiaries; Connectivity, Inc. ("Connectivity") and Econo-Comm, Inc. ("ECI"). Econo-Comm, Inc. conducts business under the name of Mobile Communications and is sometimes referred to herein as "Mobile Comm." These companies, which we acquired on April 23, 2003, 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. In addition, we engage in the business of e-recruiting through our subsidiary, CareerEngine, Inc. The e-recruiting business does

## Edgar Filing: CNE GROUP INC - Form 10KSB

not generate a significant part of our revenue, and is not significant to the operations of the Company.

Our corporate executive offices 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). US Commlink is located at 6244 Preston Avenue, Livermore, CA 94550 (925-960-0097).

Connectivity, US Commlink and Mobile Comm are part of the wireless communications industry. Our markets include Intelligent Traffic Systems, referred to as ITS and security related products. We also manufacture ancillary devices for wireless data networks. Our business objective is to design and distribute cost effective wireless products that are interoperable between people-to-people, people-to-machine, and machine-to-machine, and to address the remote communication requirements of our customers with solutions that deliver safety, convenience and security

5

benefits. We compete by offering niche products that utilize either existing infrastructures or low cost wireless systems that can be rapidly deployed.

The wireless business we compete in consists of three distinct categories:

- o product development, engineering, and manufacturing;
- o sales, distribution and installation of wireless products; and
- o service and maintenance of our own and other manufacturers' wireless products.

All three operating subsidiaries are engaged in product development. Both Mobile Comm and US Commlink design, engineer and distribute wireless products that are either radio or cellular based. All three companies market their own products and services, but Connectivity has the primary responsibility for these activities. Mobile Comm and US Commlink install their products. Mobile Comm is also an authorized dealer of Motorola products.

We provide a 12-month warranty that our hardware performs within certain specifications, and we warrant the performance of our software for a like period of time. To date, we have not received notice of any warranty claims. We have accrued \$1,000 for future warranty claims for the year ended December 31, 2004.

Mobile Comm has a number of customers with which it has long term service and maintenance contracts for wireless communications products. Many of these customers are state, county and municipal agencies. US Commlink also provides service and maintenance contracts to its customers.

Connectivity, Inc.  
-----

Connectivity has marketed wireless call box products to a variety of federal, state and local government agencies and departments, and numerous other vertical markets throughout the United States. Some of our customers include:

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o State Departments of Transportation (DOT's);
- o college campuses;
- o private and public golf courses;

6

- o hospitals;
- o air/sea ports;
- o parking facilities; and
- o amusement/county parks.

The retail prices for these products range from \$2,500 to over \$5,000, depending upon the features that are included. Connectivity's profit margins vary, depending on the type of distribution channel through which its products are sold.

Prior to June 25, 2003, Connectivity marketed its call boxes directly to end users and through a network of approximately 25 independent Authorized Agents, referred to as AA's, throughout the United States pursuant to oral agreements that could be terminated by either party at will. The AAs purchased the products from Connectivity at a discount equal to between 10% and 25% of retail prices. The AA's were not required to purchase any minimum number of units, but were not permitted to sell competing products. For the fiscal year ended December 31, 2003, Connectivity sold approximately 84% of its products directly to end users and approximately 16% to AA for resale. No one distributor accounted for more than 5% of its sales during this period.

On June 25, 2003, Connectivity entered into a written distribution agreement with Motorola, Inc. pursuant to which Motorola has begun marketing certain Connectivity call boxes in North America through its network of authorized dealers. The dealers purchase these products from Connectivity at a discount from retail prices. Dealers are not required to purchase any minimum number of units, and are permitted to sell competing products. All of the AAs previously used by us are Motorola dealers and are participating in our distribution agreement with Motorola. We also continue to market our products directly. For the fiscal year ended December 31, 2004, Connectivity sold approximately 29% of its products directly to end users and approximately 71% to dealers for resale. Motorola accounted for approximately 63% of Connectivity's sales during this period.

U.S. Commlink, Ltd.  
-----

Although US Commlink commenced operations in June 2003, its management has been engaged, primarily in the State

7

of California, in the wireless communications and emergency call box

## Edgar Filing: CNE GROUP INC - Form 10KSB

systems business for the past 25 years. US Commlink designs, manufactures, installs and services several wireless and wired ITS systems for both private and municipal organizations. US Commlink is also a State of California certified general contractor. Its services include:

- o System Design
- o Device Integration
- o Custom Products
- o Specialized Software
- o Technical Support
- o Site Installation
- o Contract Management
- o General Engineering
- o Field Construction

US Commlink has two devices that have varying applications in the ITS market. The Smart Remote Controller, or SRC device, is a telemetry device that transmits wireless data from up to four peripheral devices at remote locations to a central receiving location. The second device is a Text Telephony, or TTY, keyboard for cellular based emergency call boxes. This keyboard currently exceeds all of the regulatory requirements under the Americans With Disabilities Act of 1990 as it pertains to accessibility guidelines.

Both the SRC and TTY devices have been approved by the California Department of Transportation. The SRC device is the central component around which many other products may be developed. The applications for this device include, but are not limited to:

- o transmission of remotely gathered environmental data;
- o traffic speeds and volume counts;
- o gas, electric and seismic meter reading;
- o video monitoring; and
- o reporting adverse weather conditions through various types of sensors.

The SRC device is currently being used in several different California locations as a Datalink Smart Remote Controller. This controller detects fog and traffic speed levels and transmits this data wirelessly back to a central station. The central station then automatically compiles this data on the conditions and reports the information to highway variable message signs.

8

### Mobile Comm

-----

Mobile Comm, which was founded in 1984, manufactures all of our radio based call box products. Its primary revenue-generating business is maintaining and servicing radio systems for city, county and state government agencies. Its secondary business includes pager repair, two-way radio equipment repair and maintenance of highway callbox systems. Mobile Comm is a Motorola radio dealer, which allows it to sell and repair Motorola radio products.

Mobile Comm has maintenance contracts with

- o the State of Florida DOT for more than 800 call boxes located

## Edgar Filing: CNE GROUP INC - Form 10KSB

on the Ronald Reagan Turnpike, Bee-Line Expressway and Sun-Coast Parkway;

- o the Broward County School Board to service the mobile and portable radios for its approximately 280 schools;
- o the Broward County Transit Authority to service the radios located on all of the Transit Authority's buses in Broward County; and
- o a number of other public and private institutions for radio maintenance.

### Revenue Distribution

-----

Mobile Comm's, Connectivity's and US Commlink's revenue accounted for approximately 38%, 46%, and 12%, respectively, of CNE's revenue for the year ended December 31, 2004. Maintaining radio systems, maintaining and servicing call boxes, and other maintenance services accounted for approximately 66% of Mobile Comm's revenue for the year ended December 31, 2004.

### Competition

-----

The wireless call box industry is characterized by rapid technological changes, frequent new product and service introductions, and evolving industry standards. We believe that to compete successfully in this market we must have the ability to:

- o Properly identify customer needs;
  - o Price our products competitively;
  - o Innovate and develop new or enhanced products;
- 9
- o Successfully commercialize new technologies in a timely manner;
  - o Manufacture and deliver our products on time and in sufficient volumes to produce them on a commercially viable basis; and
  - o Differentiate our offerings from our competitors' offerings.

Numerous providers serve the market for emergency call box systems, including

- o Signal Communications Corporation ([www.sigcom.com](http://www.sigcom.com)),
- o Comarco, Inc. (NYSE symbol CMRO),
- o Gaitronics, a division of Hubble Corporation (NYSE symbol HUBB),
- o Talk-A-Phone ([www.talkaphone.com](http://www.talkaphone.com)),
- o Code Blue ([codeblue.com](http://codeblue.com))

## Edgar Filing: CNE GROUP INC - Form 10KSB

and certain other manufacturers of wireless and wireline emergency and information telephones.

The following information was obtained from the web sites of the respective companies and from other publicly disseminated promotional information:

- o Signal Communications Corporation, which provides call boxes and other communications devices and has been in business for more than 28 years, markets products primarily in the eastern United States.
- o Comarco Inc, a public company operating in several different business sectors, has a subsidiary, Comarco Wireless Technologies, Inc., that has been manufacturing solar powered, cellular call boxes since 1986.
- o The Hubbell Corporation, a multi-billion dollar company, which owns Gaitronics (another hard-wired call box company), has been manufacturing enclosures for over 45 years and offers a variety of shapes and sizes of enclosures through a variety of distribution channels.
- o Blue Light Phone Company, known as Code Blue, a hard-wired call box competitor, is a private company founded in 1989.

Most of our competitors are larger and have greater financial resources than we do, but we believe that the patents that cover our wireless applications products provide us with a competitive advantage.

10

### Research and Development

-----

The proposals that we bid on drive our research and development activities. Prior to bidding on a contract, we retain a team of two independent engineers that work under the direction of our product development staff to design what we require to meet the contract bid specifications. Accordingly, we depend significantly on the creativity and efficiency of these independent engineers to compete for the contracts that we bid on. We cannot assure you that these engineers will be available for our use in the future. If they are not and we are unable to obtain qualified replacements, our ability to bid on new contracts would be adversely affected.

### Manufacturing and Suppliers

-----

We assemble our products at our facilities in Lauderhill, Florida and Livermore, California, and use contract labor for this work. Our manufacturing process involves the assembly of numerous individual component parts and materials, which consist primarily of printed circuit boards, specialized subassemblies, fabricated housings and chassis, radios, cellular telephones, and small electric circuit components, such as integrated circuits, semiconductors, resistors, and capacitors. Third parties make a majority of the components and sub-assemblies to our specifications, which are delivered to us for final testing before assembly. Although we use sole sources for certain of these components,



## Edgar Filing: CNE GROUP INC - Form 10KSB

all of these components are readily available from a number of suppliers. We do not have written agreements with any of our suppliers except for Motorola.

### Patents and Intellectual Property

-----

We hold a patent for a radio-based callbox apparatus and a patent for our TTY keyboard for cellular call boxes. As of the date hereof, we are not parties to any infringement claims with respect to our patented products and have not received any notices of infringement claims with respect to our products. We also rely on a combination of trade secrets and confidentiality agreements to protect the intellectual property embodied in the hardware and software components of our wireless call boxes and other products.

11

### Industry Practices Impacting Working Capital

-----

Existing industry practices that affect our working capital and operating cash flow include

- o the level of variability of customer orders relative to the volume of production,
- o vendor lead times,
- o materials availability for critical parts,
- o inventory levels held to achieve rapid customer fulfillment, and
- o provisions of extended payment terms.

Currently, we sell our products under purchase orders that are placed with short-term delivery requirements. As a result, we maintain significant levels of inventory and associated production and technical staff in order to meet our obligations. Delays in planned customer orders could result in higher inventory levels and negatively impact our operating results.

Our standard terms require customers to pay for our products and services in U.S. dollars within 30 days after receipt of invoice. Non-U.S. customers are required to pay in U.S. Dollars when the order is placed. There were no sales to non-U.S. customers for the fiscal years ended December 31, 2004 and 2003. On projects that require special components, we generally receive 25-50% of our payment when we begin and the balance 30 days after completion.

### Employees

-----

As of April 1, 2005, including our two executive officers, we employed 19 employees; 13 by Mobile Comm (two engineers, eight wireless communications technicians, two administrative personnel, and one executive personnel), two by Connectivity (two sales personnel), two by US Commlink (one in construction management and one executive) and three at our executive offices in New York City (one communications technician and two executive personnel). The majority of our employees are professional, technical or

## Edgar Filing: CNE GROUP INC - Form 10KSB

administrative personnel who possess training and experience in engineering, computer science, or management. We have no union contracts. We believe that our employee relations are satisfactory.

12

Our future success depends in large part on our ability to retain key technical, marketing, and management personnel, and to attract and retain qualified employees, particularly those highly skilled in radio frequency, design, process, and test engineering involved in the development of new products. Competition for such personnel is intense, and the loss of key employees, as well as the failure to recruit and train additional technical personnel in a timely manner, could have a material and adverse effect on our operating results.

Our success also depends, to a significant, extent upon the contribution of our executive officers and other key employees. We have employment agreements with our executive officers, and maintain an employee stock option plan whereby key employees can participate in our success. All of our employees are currently covered by this plan.

### Our Discontinued Operations

-----

In August 2003 the Company, for nominal consideration, 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 \$583,634.

### Subsidiaries

-----

Our active subsidiaries are SRC Technologies, Inc., U.S. Commlink, Ltd., and CareerEngine Network, Inc. SRC's subsidiaries are Connectivity, Inc. and Econo-Comm, Inc. (d/b/a/ Mobile Communications). CareerEngine Network, Inc.'s subsidiaries are CareerEngine, Inc., Shaw Realty Company, Inc., Helmstar Funding, Inc., Burrows, Hayes Company, Inc., Dover, Sussex Company, Inc., Housing Capital Corporation, Randel, Palmer & Co., Inc., Parker, Reld & Co., Inc., McAdam, Taylor & Co., Inc. and Ryan, Jones & Co., Inc. CareerEngine, Inc.'s wholly-owned subsidiaries include Advanced Digital Networks, Inc. and A.E. Lander Corp. (formerly Alexander Edwards International, Inc.). All of CareerEngine Network, Inc.'s direct and indirect subsidiaries are operationally inactive except for CareerEngine, Inc.

### Regulation

-----

We do not believe that our business is subject to regulation as it is currently being conducted.

13

### American Stock Exchange Listing

-----

On December 31, 2003, we received notice from the American Stock Exchange Staff indicating that we had evidenced compliance with the requirements

## Edgar Filing: CNE GROUP INC - Form 10KSB

necessary for continued listing on the American Stock Exchange.

As is the case for all listed issuers, our continued listing eligibility is assessed on an ongoing basis and we continue to be subject to additional scrutiny (as set forth in Section 1009(h) of the AMEX Company Guide) as is the case for any listed Company that has regained compliance.

### Risk Factors That May Affect Future Results

-----

The following discussion highlights certain of the risks we currently face.

#### Risks Related to our Financial Condition

-----

We have operated on a negative cash flow basis and our business and financial condition will be materially and adversely affected if we are unable to generate a positive cash flow on a continuing basis.

For the year ended December 31, 2004, we operated at an average monthly negative cash flow rate of approximately \$158,000. We estimate that, based on our current rate of operations, we must generate an aggregate of at least approximately \$580,000 per month in average gross revenues in order for our cash flow to be adequate to cover our operating expenses and capital expenditures. We cannot assure you when or if we will ever be able to operate on a positive cash flow basis. If we are unable to achieve the level of revenues needed to attain a positive cash flow, we may be required to take actions, including but not limited to reducing our operations, seeking an acquisition and/or merging with another entity, that could materially change and/or adversely affect our business.

We have a history of losses and we cannot assure you that we will be able to operate profitably in the foreseeable future, if at all.

14

We have not had income from continuing operations since our fiscal year ended December 31, 1997. For our fiscal years ended December 31, 2004 and December 31, 2003 we incurred losses from continuing operations of approximately \$2,334,000 and \$1,703,000, respectively. Our ability to become profitable depends on our ability to increase our revenues to an average of approximately \$580,000 per month while keeping our expenses at current levels. In January, June and October 2004, and in February and April 2005 our management took several actions, including reducing executive salaries and administrative expenses and the waiving certain debt service payments, in an effort to address this problem and our negative cash flow problem. If we do achieve profitability, we cannot assure you that we will be able to sustain or increase such profitability on a monthly, quarterly or annual basis in the future. Our inability to achieve or maintain profitability or positive cash flow could

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o result in disappointing financial results,
- o impede implementation of our growth strategy,
- o cause the market price of our common stock to decrease,
- o impede our ability to procure financing on acceptable terms or at all, and
- o otherwise adversely affect our business and financial condition.

If we are unable to pay or otherwise satisfy substantial indebtedness that becomes due at the end of April and in June 2005, we may be unable to continue our business.

On April 30 and June 30, 2005, in accordance with the terms of currently outstanding principal indebtedness, we will be required to pay approximately \$1,750,000 and \$150,000 respectively. If we are unable to pay or otherwise reschedule or satisfy this indebtedness, we will most likely be unable to continue our business. We currently do not have the financial resources to pay this indebtedness and have no agreement to reschedule or otherwise satisfy it. Accordingly, we cannot assure you

15

that we will be able to satisfy this indebtedness.

We may be unable to continue as a going concern.  
-----

Our independent auditors' report on our consolidated financial statements for the years ended December 31, 2004 and 2003 includes language reflecting that substantial doubt exists, as to our ability to continue as a going concern. Our management's notes to these financial statements included a discussion of our ability to continue as a going concern. They describe the reasons why there is substantial doubt about our ability to continue as a going concern. Our financial statements show an accumulated deficit at December 31, 2004 of approximately \$21,500,000 and an accumulated deficit at December 31, 2003 of approximately \$19,100,000. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. As noted above, we cannot assure you that we will not continue to incur net losses and negative cash flow for the foreseeable future.

Under certain circumstances we could incur an impairment loss that could adversely affect our stockholders' equity.

We have accounted for our acquisition of SRC and its affiliated companies, and US CommLink under the purchase method, which resulted in our recording approximately \$7,286,000 in goodwill. If, among other things, these companies, in the aggregate, are unable to attain and sustain a positive cash flow by approximately December 2005, one year after our last valuation, we may incur an impairment loss that

## Edgar Filing: CNE GROUP INC - Form 10KSB

could decrease the value of our goodwill and adversely affect our stockholders' equity to the extent of this loss.

16

We may require financing if our revenues do not meet our projections or our expenses are greater than we anticipate, or to finance the further development of our business. Our inability to obtain financing, if required, would have an adverse effect on our business.

We may need to obtain financing if our actual costs are higher than projected or our contemplated future revenues fall below our current expectations, in order to

- o finance more rapid expansion,
- o increase marketing and sales,
- o develop new or enhanced technology,
- o respond to competitive pressures,
- o establish strategic relationships, and/or
- o provide for working capital.

If we raise such financing by issuing equity or convertible debt securities, the percentage ownership of our stockholders will be diluted. Any new debt or equity securities could have rights, preferences and privileges senior to rights of our common stock holders. We currently have no commitments for any such financing and, accordingly, cannot assure you that such financing will be available when and to the extent required or that, if available, it will be on terms acceptable to us. If adequate financing is not available on acceptable terms, we may be unable to finance the activities referred to above. In such event, our business may be adversely affected.

Recently enacted and proposed changes in securities laws and regulations will increase our costs.

The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required and will continue to require changes in some of our corporate governance practices. The Act also required the SEC to promulgate new rules on a variety of subjects. In addition to final rules and rule proposals already made by the SEC, the American Stock Exchange has proposed revisions to its requirements for companies such as us that have securities listed with it. We expect these new

17

rules and regulations to increase our legal and financial compliance costs, and to make some activities more difficult, time consuming and/or more costly. We also expect that these new rules and regulations may make it more costly to obtain director and officer liability insurance coverage, and we may

## Edgar Filing: CNE GROUP INC - Form 10KSB

be required to accept reduced coverage or incur substantially higher costs to obtain it. We currently do not have this coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers. In accordance with the Sarbanes-Oxley Act, we have instituted a number of changes relating to corporate governance practices including the certification of our consolidated financial statements pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act and adoption of certain internal controls. The Sarbanes-Oxley Act has provisions that have implementation deadlines, including those related to Section 404 concerning internal control procedures. Implementation of those procedures will require resources and a portion of our management's time and efforts.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in these policies or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, while current accounting rules allow us to exclude the expense of stock options from our financial statements, influential business policy groups, including the Financial Accounting Standards Board, have suggested that the rules be changed to require these options to be expensed. Technology

18

companies generally, and our company, specifically, rely heavily on stock options as a major component of our employee compensation packages. If we are required to expense options granted to our officers and employees, although our cash position would not be affected, our income from continuing operations and our stockholders' equity would decrease and our stock price could be adversely affected. In such event, we may have to decrease or eliminate option grants to our officers and employees, which could negatively impact our ability to attract and retain qualified employees and executive personnel.

Our ability to use net operating loss carryforwards may be limited in the future, which could adversely affect our financial condition.

As of December 31, 2004, we had a federal income tax net operating loss carryforward of approximately \$38.8 million. Section 382 of the Internal Revenue Code of 1986, as amended, (the "Code") provides that our use of our net operating loss carryover and similar corporate tax attributes is limited if there is an "ownership change" as defined in that Section. In

## Edgar Filing: CNE GROUP INC - Form 10KSB

general, the post-ownership change limitation is an amount equal to our fair market value multiplied by a deemed rate of return on the investment of that fair market value. The selected deemed rate of return is the federal "long-term tax exempt rate," reflecting the rate of return on our equity value had we sold our assets and invested the proceeds in long-term tax-exempt bonds. The application of the limitation would severely restrict our ability to use our net operating loss carryforward to offset any taxable income we may earn in future years. This would adversely affect our net after tax cash, which could adversely affect our financial condition as well as the price of our common stock.

In general, for purposes of the Code, an ownership change occurs when 5% or more owners increase their ownership percentage by more than 50% over the lowest percentage owned by those owners at any time during a testing period, which is generally the three years prior to the

19

increase in ownership by 5% or more owners. The IRS has authority to treat warrants, options, contracts to acquire stock, convertible debt interests and other similar interests as if they are stock and stock as if it is not stock. Although we believe that we have not had an ownership change on the basis of existing rules, we cannot assure you that the IRS will accept our position. In any event, it is possible that past and/or future transactions affecting our equity could create an ownership change and trigger this limitation on the use of our net operating loss.

We have amended our by-laws to restrict transfers of our common stock that could cause an ownership change but we cannot assure you that this amendment will prevent an ownership change. In addition, this transfer restriction could adversely affect the value of our common stock.

### Risks Related to our Business

-----

Our business faces intense competition. If we fail to adequately meet this competition, our business could be adversely affected.

We encounter aggressive competition in the Intelligent Traffic System ("ITS") and call box markets. We have numerous competitors that range from large U.S. corporations to many relatively small and highly specialized firms. We compete primarily on the basis of

- o technology,
- o performance,
- o price,
- o quality,
- o reliability,

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o customer service, and
- o support.

Most of our competitors have substantially greater financial, technical and marketing resources, longer operating histories and greater name recognition to apply to each of these factors, and in some cases have built significant reputations with the customer base in the markets in which we compete. If we are unable to successfully compete, our business, financial

20

condition, and operating results could be materially and adversely affected.

Our products must conform to the requirements of the Americans With Disabilities Act of 1990 as it pertains to accessibility guidelines. If we fail to meet these requirements our business could be adversely affected.

Our products are manufactured to comply with the ADA as it relates to accessibility guidelines. In the event that the law changes and we fail to adapt our products to comply with these changes, our business would be adversely affected.

Because we have fixed costs, any decline in our revenues could disproportionately and adversely affect our financial condition and operating results.

Significant portions of our costs are fixed, due in part to our fixed sales, engineering and product support, and manufacturing facilities. As a result, relatively small declines in revenue could disproportionately affect our operating results. Additionally, we have a limited backlog and a limited view of when an order will be received and shipped, which may affect revenue in any given period.

Changes in product demand, among other things, could adversely affect our manufacturing capacity, which would adversely affect our business.

Because we build our inventory to meet specific contract requirements, customer demand is not a factor that will result in excess manufacturing capacity. However, if our manufacturing capacity does not keep pace with our contract awards, we will be unable to fulfill orders in a timely manner, which could adversely affect our operating results. In addition, any significant disruption in our manufacturing operation, whether due to fire, natural disaster, or otherwise, also will materially and adversely affect our financial condition and operating results.

21

Because we rely on independent and single source suppliers, failure of a supplier to deliver to us may adversely affect our business.



## Edgar Filing: CNE GROUP INC - Form 10KSB

We rely on independent suppliers to provide us with the components that we use to assemble our products. We do not have written agreements with our suppliers except for Motorola. We are an authorized dealer for Motorola radios but the sale of new Motorola radios is not a material portion of our business. Accordingly, because we do not control these suppliers, our business could be adversely affected to the extent that our suppliers fail to make these components to our specifications or deliver them in a timely manner.

In addition, we currently procure, and expect to continue to procure, approximately 10% of the components that we use to build our products from single source manufacturers due to unique component designs, as well as certain quality and performance requirements. We also purchase certain customized components from single sources in order to take advantage of volume pricing discounts. In the future, we could experience shortages of single-source components. In such event, we may have to make adjustments to both product designs and production schedules that could result in delays in the production and delivery of our products. Such delays could have materially and adversely affect our financial condition and operating results.

If we fail to obtain a bidding partner, our business could be adversely affected.

Approximately 70% of our gross and net revenues for our fiscal year ended December 31, 2004 were generated by our participation in public projects. This participation involves competitive bidding, which generally requires us to post a bid bond equal to 10% of the total cost of the project. If we are awarded the bid, we are usually required to post a 100% performance bond. We have been able to obtain these bonds for the work we currently are performing but, because of our weak financial condition, in the future we may be required to obtain a financially responsible partner to participate with us in the

22

bidding process. We cannot assure you that such a partner will be available to us, if required. If and to the extent that we fail to find such a partner when needed, our business would be adversely affected.

If we fail to introduce new products on a timely basis, our business could be adversely affected.

We sell our products in the ITS industry, which is characterized by;

- o rapid technological changes,
- o frequent new product introductions, and
- o evolving industry standards.

Without the timely introduction of new products and

## Edgar Filing: CNE GROUP INC - Form 10KSB

enhancements, our products will likely become technologically obsolete over time, in which case our operating results would suffer. The success of our new product offerings will depend on several factors, including our ability to;

- o properly identify customer needs,
- o price our products competitively,
- o innovate and develop new technologies and applications,
- o successfully commercialize new technologies in a timely manner,
- o manufacture and deliver our products in sufficient volumes on time, and
- o differentiate our offerings from those of our competitors.

Development of new products may require a substantial investment before we can determine the commercial viability of these innovations. We would suffer competitive harm if we dedicate a significant amount of our resources to the development of products that do not achieve broad market acceptance.

Our business could be adversely affected if our products have defects.

Our products may have defects despite any internal testing that we may undertake. These defects could result in product returns or

23

recalls and loss or delay in market acceptance, which could materially and adversely affect our business, operating results, and/or financial condition. We warrant our products against certain defects for a period of one year and, although we have not received notice of any warranty claims in the past, we cannot assure you that no such claims will be made in the future.

Because most of our products are based on constantly changing technology, our business could be adversely affected if we fail to adequately adapt our products to these changes.

Most of our products are based on wireless and solar powered technology. This technology is constantly being updated. Accordingly, our operating results could suffer if we fail to adapt our products to meet this changing technology. Among the factors that make a smooth transition from current products to new products difficult are:

- o delays in product development or manufacturing,
- o variations in product costs, and

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o delays in customer purchases of existing products in anticipation of new product introductions.

Our operating results could also suffer due to the timing of product introductions by our competitors. This is especially true when a competitor introduces a new product just before we do.

Our business could be adversely affected if we fail to maintain rights to our intellectual property.

We generally rely upon patent and trade secret laws, and agreements with our employees, customers, and partners to establish and maintain our proprietary rights in our technology and products. However, any of our intellectual proprietary rights could be challenged, invalidated, or circumvented. Our intellectual property may not necessarily provide significant competitive advantages. In addition, because of

24

the rapid pace of technological change in the ITS and call box markets, certain of our products rely on key technologies developed by third parties, and we may not be able to continue to obtain licenses from these third parties. Third parties also may claim that we are infringing their intellectual property. Even if we do not believe that our products are infringing third parties' intellectual property rights, these claims can be time-consuming and costly to defend and divert our management's attention and resources away from our business. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. If we cannot or do not license the infringed technology or substitute similar technology from another source, our business could suffer.

If we fail to integrate with third parties when required to do so, our business could be adversely affected.

In the normal course of business, we frequently engage in discussions with third parties relating to integrated bid participations and strategic alliances, possible acquisitions, and joint ventures. Although completion of any one transaction may not have a material effect on our financial position, results of operations, or cash flows taken as a whole, our financial results may differ from the investment community's expectations in a given quarter. Acquisitions and strategic alliances may require us to integrate with different company cultures, management teams, and business infrastructures. We may also have to develop, manufacture, and market products in a way that enhances the performance of the combined business or product line. Depending on the size and complexity of an acquisition, our successful integration of an entity depends on a variety of factors, including

- o hiring and retaining key employees,
- o managing facilities and employees in separate geographic areas, and

## Edgar Filing: CNE GROUP INC - Form 10KSB

- o integrating or coordinating different research and development and product manufacturing facilities.

25

All of these efforts require varying levels of management resources, which may divert our attention from other business operations.

Our business may suffer if we lose the services of our executive officers, or if we cannot recruit and retain additional skilled personnel.

We depend on the continued services and performance of George W. Benoit, our Chairman and Chief Executive Officer and Anthony S. Conigliaro, our Chief Financial Officer, for our future success. If either Mr. Benoit or Mr. Conigliaro becomes unable or unwilling to continue in his current position, our business and financial conditions could be damaged. We are not the beneficiaries of any key person life insurance covering them or any other executive.

We also depend upon our ability to attract, hire, train and retain highly skilled technical, sales and marketing, and support personnel, particularly with expertise in wireless call box products and services. Competition for qualified personnel throughout our industry is intense. If we fail to attract, hire or retain such personnel, our business, results of operations and financial condition could be materially and adversely affected. We may experience difficulty providing the proper level of service to our customers or incur increased costs due to rising salary and benefit levels.

### Risks Related to the ownership of our Common Stock

-----

Because our assets are insufficient to pay our outstanding debt and preferred stock liquidation preferences, if we liquidated now, owners of our common stock would not receive any proceeds from the liquidation.

As of December 31, 2004, we had outstanding indebtedness of approximately \$3,994,000 and outstanding preferred stock with an aggregate liquidation preference of \$4,137,966. Accordingly, if we liquidated, based on our current financial condition, no assets would be available for distribution to our common

26

stockholders after distributions to creditors and holders of our preferred stock.

Your ability to sell any common stock may be restricted, because there is a limited trading market for these securities.

## Edgar Filing: CNE GROUP INC - Form 10KSB

Although our common stock is currently traded on the American Stock Exchange, a liquid market in our stock has been sporadic. Accordingly, if you purchase any shares of our common stock, you may not be able to sell them when you want or at the price you want, if at all.

Our common stock could be delisted from trading on the American Stock Exchange, in which event your ability to sell any shares you may own could be significantly and adversely affected.

Although our common stock is listed for trading on the American Stock Exchange (the "AMEX"), it could be delisted because we may be unable to satisfy certain AMEX listing guidelines, including earnings per share, market price and stockholders' equity criteria. Among other things, we must (i) continuously maintain our stockholders' equity in excess of \$6,000,000, and (ii) hold, annually, a meeting of our stockholders, to meet the AMEX's continuing listing requirements. On August 26, 2003, we received notice from the AMEX that as of June 30, 2003, we were below certain of its continuing listing standards. At that date, our stockholders' equity was \$2,069,635; however, at September 30, 2003, our stockholders' equity was \$6,900,790. On January 2, 2004 we received a notice dated December 31, 2003 from the AMEX Staff indicating that we evidenced compliance with the requirements necessary for continued listing on the AMEX. As is the case for all listed issuers, our continued listing eligibility is assessed on an ongoing basis and we continue to be subject to additional scrutiny (as set forth in Section 1009(h) of the AMEX Company Guide) as is the case for any listed company that has regained compliance. If we fail to comply with the continuing listing standards, our securities would most likely be delisted from the AMEX. We cannot assure you that we will continue to be in such compliance.

27

If we do not retain the AMEX listing and our common stock is thereafter quoted only on the OTC Electronic Bulletin Board, a significantly less liquid market than the AMEX, a stockholder will find it even more difficult to dispose of, or to obtain accurate price quotations of our common stock. In addition, depending on several factors including, among others, the future market price of our common stock, these securities could become subject to the so-called "penny stock" rules that impose additional sales practice and market making requirements on broker-dealers who sell and/or make a market in such securities. These factors could affect the ability or willingness of broker-dealers to sell and/or make a market in our common stock and the ability of purchasers of our common stock to sell their shares in the secondary market. A delisting could also negatively affect our ability to raise capital in the future.

The market price of our common stock may be volatile, which could adversely affect the value of any common stock that you may own.

The market price of our common stock may fluctuate

## Edgar Filing: CNE GROUP INC - Form 10KSB

significantly in response to the following factors:

- o variations in our quarterly operating results;
- o our announcements of significant contracts, milestones or acquisitions;
- o our relationships with other companies;
- o our ability to obtain capital commitments;
- o additions or departures of our key personnel;
- o sales of our common stock by others or termination of stock transfer restrictions;
- o changes in estimates of our financial condition by securities analysts; and
- o fluctuations in stock market price and volume.

The last three factors are beyond our control.

In the past, following periods of volatility in the market price of a company's securities,

28

securities class action litigation often has been instituted against that company. Such litigation is expensive and diverts management's attention and resources. Any one of the factors noted above could have an adverse affect on the value of our common stock.

Anti-takeover provisions of the Delaware General Corporation Law and in our Certificate of Incorporation could discourage a merger or other type of corporate reorganization or a change in control, even if it could be favorable to the interests of our stockholders.

The Delaware General Corporation Law and our Certificate of Incorporation contain provisions that may enable our management to retain control and resist a takeover of our Company. These provisions generally prevent us from engaging in a broad range of business combinations with an owner of 15%, 20% in the case of our Certificate of Incorporation, or more of our outstanding voting stock for a period of three years from the date that this person acquires his stock. Our Certificate of Incorporation and our By Laws also require the affirmative vote of at least 60% or our voting stockholders to effect certain actions, including, under certain circumstances, the removal of directors, and provide for the election of different classes of directors with the term of each class ending at different times. In addition, our By-Laws require the affirmative vote of at least 60% or our directors to change the composition of our Executive Committee. Accordingly, these provisions could discourage or make more difficult a change in control or a merger or other type of corporate reorganization even if it could be favorable to the interests of our stockholders.

## Edgar Filing: CNE GROUP INC - Form 10KSB

Our officers and directors exercise significant control over our affairs, which could result in their taking actions that other stockholders do not approve of.

Our executive officers and directors, and persons or entities affiliated with them, currently control about 17.2% of our outstanding common stock. These stockholders, if they act together, may be able to exercise substantial influence

29

over all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also delay or prevent a change in control of our Company and might affect the market price of our common stock.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

We have never paid any cash dividends on our common stock and currently intend to retain all future earnings, if any, to invest in our business. Accordingly, we do not anticipate paying cash dividends on our common stock in the foreseeable future.

If our Board issues common stock, which it can do without stockholder approval, a purchaser of our common stock could experience substantial dilution.

Our Board of Directors has the authority to issue up to 40 million shares of common stock and to issue options and warrants to purchase shares of our common stock without stockholder approval. In the future, we could issue additional shares of our common stock at values substantially below the current market price for our common stock, which could substantially dilute the equity ownership of holders of our common stock. In addition, our Board could issue large blocks of our common stock to prevent unwanted tender offers or hostile takeovers without any stockholder approval.

Our ability to issue preferred stock may adversely affect the rights of common stockholders and be used as an anti-takeover device.

Our Certificate of Incorporation authorizes our Board of Directors to issue up to 25 million shares of preferred stock without approval from our stockholders. Accordingly, all of our common stock will be junior to any preferred stock issued by us, and our Board has the right, without the approval of common stockholders, to fix the relative rights and preferences of such

30

preferred stock. This could affect the rights of common stockholders regarding, among other things, voting, dividends

## Edgar Filing: CNE GROUP INC - Form 10KSB

and liquidation. We could also use an issuance of preferred stock to deter or delay a change in control that may be opposed by our management, even if the transaction might be favorable to the common stockholders.

Any exercise of outstanding options and warrants will dilute then-existing stockholders' percentage of ownership of our common stock.

We have a significant number of outstanding options and warrants. Shares issuable upon the exercise of these options and warrants, at prices ranging currently from \$0.15 to \$6.00 per share, represent approximately 73.8% of our total outstanding stock on a fully-diluted basis. The exercise of all of the outstanding options and warrants would dilute the then-existing stockholders' percentage ownership of our common stock. Any sales resulting from the exercise of options and warrants in the public market, such as sales by the selling stockholders pursuant to this prospectus, could adversely affect prevailing market prices for our common stock. Moreover, our ability to obtain additional equity capital could be adversely affected since the holders of outstanding options and warrants may exercise them at a time when we would also wish to enter the market to obtain capital on terms more favorable than those provided by such options and warrants. We lack control over the timing of any exercise or the number of shares issued or sold if exercises occur.

### Item 2. Description of Property.

Our principal executive offices and e-recruiting business are located at 200 West 57th Street, Suite 507, New York, New York 10019 where we rent approximately 500 square feet under a lease that will expire on April 30, 2005 pursuant to which we pay a base monthly rental of \$3,250. SRC, Connectivity and Mobile Comm are located at 3733 NW 16th Street, Lauderhill, FL 33311, where they rent approximately 5,000 square feet under a lease that expires on March 31, 2006 pursuant to which we pay a base monthly rental of \$6,750. This lease is with affiliates of Thomas Sullivan, who is one of our

31

executive officers and Gary L. Eichsteadt, who is one of our directors and one of our employees. US Commlink is located at 6244 Preston Avenue, Livermore, CA 94550, where it leases approximately 2,000 square feet under a lease that expires May 31, 2005 pursuant to which we pay a base monthly rental of \$1,981.

32

### Item 3. Legal Proceedings.

We are a party to various vendor related litigations. Based on the opinion of legal counsel, we have accrued a liability of approximately \$100,000 and, accordingly, this liability has been reflected in accounts payable and accrued expenses within the consolidated financial statements at December 31, 2004.



## Edgar Filing: CNE GROUP INC - Form 10KSB

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

On June 18, 2004, we held an annual meeting of our stockholders at which our stockholders elected three directors, ratified the selection of our auditors for 2004 and approved and adopted an amendment to our 2003 Stock Incentive Plan.

Our stockholders elected George W. Benoit, David W. Dube and Carol A. Gutowski for three year terms. The following table sets forth the number of votes for, against, withheld, abstained and broker no votes:

Name of Director	For	Against	Withheld	Abstained	Broker No Votes
-----	---	-----	-----	-----	-----
George W. Benoit	7,747,103	--	35,243	--	--
David W. Dube	7,747,203	--	35,143	--	--
Carol L. Gutowski	7,747,203	--	35,143	--	--

Our stockholders ratified the selection of Rosen Seymour Shapss Martin & Company LLP as our auditors for 2004. The vote was 7,751,5033 for, 21,733 against, none withheld, 9,110 abstained and no broker no votes. Our stockholders also ratified the resolution to approve and adopt an amendment to the 2003 Stock Incentive Plan. The vote was 5,400,591 for, 89,087 against, none withheld, 2,525 abstained and 2,143,865 broker no votes.

On June 30, 2004, Ms. Gutowski resigned from our board, and on June 28, 2004, Anthony S. Conigliaro, our Vice President and Chief Financial Officer, was appointed to our board. On January 11, 2005, as part of the settlement of litigation with Mr. Gutowski and Larry M. Reid, the both resigned as directors. On April 6, 2005, we terminated Rosen Seymour Shapss Martin & Company LLP as our independent auditors and appointed Wheeler, Herman, Hopkins & Lagor, P.A.

33

## PART II

### Item 5. Market For Common Equity and Related Stockholder Matters.

Exchange Listing:

-----

Our common stock is listed on the American Stock Exchange (trading symbol CNE).

The number of record holders of our common stock as of April 1, 2005 was approximately 287.

Equity Sale Prices:

-----

	Common Stock	
	High Sales Price	Low Sales Price
	-----	-----
2004		
----		
1st Quarter	1.20	0.50

Edgar Filing: CNE GROUP INC - Form 10KSB

2nd Quarter	1.35	0.37
3rd Quarter	0.40	0.23
4th Quarter	0.50	0.30
2003		
----		
1st Quarter	0.96	0.25
2nd Quarter	1.20	0.55
3rd Quarter	0.92	0.45
4th Quarter	0.65	0.52

Dividends:

-----

We have not previously paid cash dividends on our common stock. Our Board of Directors does not currently intend to pay cash dividends on the outstanding shares of our common stock in the foreseeable future. The payments of future dividends and the amount thereof will depend upon our earnings, financial condition, capital requirements and such other factors as our Board of Directors may consider relevant.

Private Issuance of Company Securities:

-----

During the year ended December 31, 2004, we 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 II - Item 6: Management's Discussion and Analysis of Financial

34

Condition and Results of Operations - Liquidity and Capital Resources." We issued preferred stock, common stock, warrants and notes in connection with our 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 7: Financial Statements - Notes to Financial Statements."

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary Financial Information

-----

The summary financial data set forth below are derived from and should be read in conjunction with the financial statements, including the notes thereto, filed as part of this Annual Report in Form 10-KSB.

	Year Ended December 31,	
	2004	2003
	----	----
	(in thousands, except share data)	
Statement of Operations Data		
Revenues	\$ 2,676	\$ 2,149
Net loss	\$(2,333)	\$(1,119)

## Edgar Filing: CNE GROUP INC - Form 10KSB

Net loss per			
common share:			
Basic	\$	(.22)	\$ (.16)
Diluted	\$	(.22)	\$ (.18)
Weighted average number of common shares			
outstanding:			
Basic	10,545,082		7,161,756
Diluted	10,545,082		10,541,956

	2004	December 31,	2003
	----		----
		(in thousands)	
Balance Sheet Data			
Working capital	\$ (3,147)		\$ (544)
Total assets	\$ 9,589		\$10,141
Total liabilities	\$ 3,994		\$ 3,873
Stockholders' equity	\$ 5,595		\$ 6,268

### General

-----

We are a holding company whose primary operating subsidiaries are SRC and US Commlink. SRC, also a holding company, is the parent of Connectivity and ECI. These companies, which we acquired on April 23, 2003, market, manufacture, repair and maintain remote radio and cellular-based emergency response products to a variety of federal, state and local government agencies

35

as well as other vertical markets located throughout the United States. In addition, we engage in the business of e-recruiting through our subsidiary, CareerEngine, Inc. The e-recruiting business does not generate a significant part of our revenue, and is not significant to the operations of the Company.

### Acquisition of all of the outstanding stock of SRC and ECI

-----

On April 23, 2003 we issued (i) 899,971 shares of our common stock, (ii) 1,697,966 shares of our non-voting Series A Preferred Stock and an equal number of ten year Class A Warrants, (iii) 4,400 shares of our Series B Preferred Stock, and (iv) 9,735,875 shares of our non-voting Series C Preferred Stock and a like number of ten year Class C Warrants, for 100% ownership of SRC, US Commlink and ECI. In addition, ECI's sellers retained certain of ECI's trade receivables aggregating approximately \$100,000. We also acquired a patent related to the operation of ECI's business in exchange for notes aggregating \$2,000,000 bearing 8% interest. The consolidated financial statements include the operating results of US Commlink, and those of SRC and ECI from the date of their acquisition. The details of such transactions are set forth below.

SRC

---

## Edgar Filing: CNE GROUP INC - Form 10KSB

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

We issued to the other former common stockholders of SRC, including Mr. Reid, an aggregate of 899,976 shares of its Common Stock, 1,697,966 shares of our non-voting Series A Preferred Stock and a like number of ten year non-detachable Class A Warrants, each to purchase one share of our Common Stock at \$1.00 per share. The Class A Warrants are not exercisable or detachable from the Series A Preferred Stock prior to 66 months after their issuance.

On January 10, 2005, as part of the a litigation settlement with Messrs. Reid and Gutowski and Mrs.

36

Gutowski, they agreed to exchange all of their Class AA, Class A and Class C Preferred Stock, and all of their 1,550,000 incentive stock options for 850,000 shares of our common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005.

We issued an aggregate of 4,400 shares of our Series B Preferred Stock to the former holders of the SRC Series B Preferred Stock.

ECI  
---

On April 23, 2003, the Company issued to Gary L. 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. We also acquired a patent ("ECI 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. Mr. Sullivan remained an executive officer ECI. On July 31, 2003, we transferred all the stock of ECI to SRC and ECI became a wholly-owned subsidiary of SRC. In addition, in 2003 we transferred our title to the ECI Patent to SRC. In 2004 we transferred title back to us as collateral for certain or our 24% secured notes.

On May 19, 2003, Mr. Eichsteadt assigned \$1,500,000 of the aforementioned 8% notes equally to Mr. Sullivan, Mr. Gutowski and Mrs. Gutowski. 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 Preferred Stock and on June 18, 2004 Messrs. Eichsteadt and Sullivan also converted their note into 1,000,000 shares of the Company's Series AA Preferred Stock. As noted above, Mr. Gutowski and Mrs. Gutowski's Series AA Preferred Stock are subject to an exchange agreement for common stock.

The Series AA Preferred Stock has an 8% cumulative dividend, payable in common stock or cash, and a liquidating preference over all other CNE equity of \$1,000,000. The Series A Preferred Stock has a liquidating preference over all other CNE equity except the Series AA of \$1,697,961.

## Edgar Filing: CNE GROUP INC - Form 10KSB

The Series B Preferred

37

Stock has a liquidating preference over all other CNE equity except the Series AA and A Preferred Stock of \$440,000. The Series C Preferred Stock has no liquidating preference.

The total consideration, including acquisition costs, was allocated based on the estimated fair values of the net assets acquired on the acquisition date.

38

	ECI	SRC	Total
	-----	-----	-----
Tangible assets	\$ 588,492	\$ 292,979	\$ 857,593
Patents	1,379,789	170,820	1,550,609
Goodwill	2,766,233	4,519,661	7,285,894
Liabilities	(2,144,771)	(857,033)	(3,001,804)
	-----	-----	-----
Net asset value	\$ 2,589,743	\$ 4,126,427	\$ 6,716,170
	=====	=====	=====

There were no relationships between us or any of our affiliates and any of the sellers of the assets we acquired prior to the acquisition transactions.

### Catastrophe of September 11, 2001

-----

In 2001, our headquarters were located at Suite 2112 of Two World Trade Center in New York City. In April and September 2002, and August 2003, we received governmental assistance grants related to the catastrophe aggregating \$300,000. The grants have a restriction that could require their repayment, specifically if we were to relocate a substantial portion our operations outside of New York City before May 1, 2005. Until such time as this restriction no longer applies, we will classify the grants as a liability of the Company. We will remove the liability and record grant income on our financial statements when these restrictions lapse or are satisfied or, alternatively, repay such grants if the above condition is not satisfied.

### Critical Accounting Policies and Estimates

-----

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to our allowance for doubtful accounts, inventory reserves, goodwill and purchased intangible asset valuations, and asset impairments. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

## Edgar Filing: CNE GROUP INC - Form 10KSB

Actual results may differ from these estimates under different assumptions or conditions.

39

We believe the following critical accounting policies, among others, affect the significant judgments and estimates we use in the preparation of our consolidated financial statements:

### Allowance for Doubtful Accounts, Revenue Recognition

-----

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance to reduce the net receivable to the amount we reasonably believe will be collected. For all other customers, we record allowances for doubtful accounts based on the length of time the receivables are past due, the prevailing business environment and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions were to worsen, additional allowances may be required in the future.

We recognize product revenue when persuasive evidence of an arrangement exists, the sales price is fixed, the service is performed or products are shipped to customers, which is when title and risk of loss transfers to the customers, and collectibility is reasonably assured.

At December 31, 2004, our allowance for doubtful accounts was \$51,000 or 22.9% of gross receivables, compared to \$51,500 or 18.8% of gross receivables as of December 31, 2003. The increase in the reserve as a percentage of gross receivable from prior year is the result of a decrease in accounts receivable and a requirement for an allowance for doubtful accounts of an almost equal amount to that required in 2003.

### Inventory Valuation

-----

At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. If inventories on hand are in excess of forecasted demand, we provide appropriate reserves for such excess inventory. If we have previously recorded the value of such inventory determined to be in excess of projected demand, or if we determine that inventory is obsolete,

40

we write off these inventories in the period the determination is made. Remaining inventory balances are adjusted to approximate the lower of our cost or market value. If future demand or market conditions are less favorable than our projects, additional inventory write-downs may be required, and would be reflected in cost of revenues in the period the revision is made.

### Valuation of Goodwill. Purchased Intangible Assets and Long-Lived Assets

## Edgar Filing: CNE GROUP INC - Form 10KSB

We perform goodwill impairment tests on an annual basis and on an interim basis if an event or circumstance indicates that it is more likely than not that impairment has occurred. We assess the impairment of other amortizable intangible assets and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance to historical or projected operating results, substantial changes in our business strategy and significant negative industry or economic trends. If such indicators are present, we evaluate the fair value of the goodwill. For other intangible assets and long-lived assets we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value of goodwill is determined by using a valuation model based on market capitalization. Fair value of other intangible assets and long-lived assets is determined by future cash flows, appraisals or other methods. If the long-lived asset determined to be impaired is to be held and used, we recognize an impairment charge to the extent the anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the long-lived asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. See Note D "Intellectual Property Rights and Goodwill."

### Recent Accounting Pronouncements

-----  
In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities (VIE's), and a revision to FIN 46 in December 2003 (together, "FIN 46"), which requires identification of the Company's participation

41

in VIE's. VIE's are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE's, FIN 46 sets forth a model to evaluate potential consolidation based on the assessment of which party to a VIE, if any, bears a majority of the risk of the VIE's expected losses, or stands to gain from a majority of the VIE's expected returns. FIN 46 also sets forth certain disclosures regarding interest in VIE's that are deemed significant, even if consolidation is not required. FIN 46 is effective for all VIE's created after January 31, 2003. The Company adopted FIN 46 during 2003 and the adoption of this interpretation did not have an impact on the Company's consolidated financial statements in 2004 or 2003.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The Company adopted this standard during 2003 and the adoption did not have an impact on the Company's consolidated

## Edgar Filing: CNE GROUP INC - Form 10KSB

financial statements in 2004 or 2003.

During December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 153, Exchanges of Nonmonetary Assets -- An Amendment of APB Opinion No. 29. APB Opinion No. 29, Accounting for Nonmonetary Transactions ("APB 29") required that nonmonetary exchanges be accounted for at fair value, subject to certain exceptions. SFAS 153 has removed the exception for nonmonetary exchanges of similar productive assets, and replaced it with an exception for exchanges that lack commercial substance. The provisions of SFAS 153 are effective prospectively for all nonmonetary asset exchanges in fiscal periods beginning after June 15, 2004. Early adoption is permitted. The Company does not expect the adoption of SFAS No. 153 to have a material impact on the Company's consolidated financial statements.

42

During December 2004, FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires companies to recognize the compensation cost related to share-based payment transactions with employees in the financial statements. The compensation cost is measured based upon the fair value of the instrument issued. Share-based compensation transactions with employees covered within SFAS 123R include share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123 included a fair-value-based method of accounting for share-based payment transactions with employees, but allowed companies to continue to apply the guidance in APB 25 provided that they disclose in the footnotes to the financial statements the pro forma net income if the fair-value-based method been applied. The Company is currently reporting share-based payment transactions with employees in accordance with APB 25 and provides the required disclosures. SFAS 123R will be effective for the Company beginning January 1, 2006.

In implementing SFAS 123R the Company will apply the modified prospective application transition method. The modified prospective application transition method requires the application of this standard to:

- o All new awards issued after the effective date;
- o All modifications, repurchased or cancellations of existing awards after the effective date; and
- o Unvested awards at the effective date.

For unvested awards, the compensation cost related to the remaining "requisite service" that has not been rendered at the effective date will be determined by the compensation cost calculated currently for either recognition or pro forma disclosures under SFAS 123. The Company will be adopting the modified prospective application of SFAS 123R.

### A. Results of Operations: 2004 Compared to 2003

-----

Revenues

43



## Edgar Filing: CNE GROUP INC - Form 10KSB

Total revenues from continuing operations increased to \$2,675,986 for the year ended December 31, 2004 from \$2,149,370 for the year ended December 31, 2003.

Product sales income increased to \$1,884,751 for the year ended December 31, 2004 from \$1,445,324 for the year ended December 31, 2003 due to the increase in sales to our dealers, primarily Motorola, Inc.

Service fee income increased to \$686,647 for the year ended December 31, 2004 from \$548,762 for the year ended December 31, 2003 due to our Florida operations being awarded new contracts in 2004.

Internet related income decreased to \$104,588 for the year ended December 31, 2004 from \$155,284 for the year ended December 31, 2003 as the operations of our subsidiary, CareerEngine, Inc. continue to decline due to our relatively small size in the e-recruiting industry.

### Cost of Goods Sold

Costs of goods sold, which relates to product sales and related service fee income increased to \$1,553,749 for the year ended December 31, 2004 from \$1,176,900 for the year ended December 31, 2003 due to our increased revenue from continuing operations.

### Other Expenses

Total other expenses from continuing operations increased to \$2,943,177 for the year ended December 31, 2004 from \$2,666,457 for the year ended December 31, 2003.

Selling expenses decreased to \$35,522 for the year ended December 31, 2004 from \$47,806 for the year ended December 31, 2003 due to the decrease in the number of trade shows we participated in 2004 as compared to 2003.

Compensation and related costs decreased to \$1,081,175 for the year ended December 31, 2004 from \$1,212,150 for the year ended December 31, 2003 due primarily to the termination of three officers of the Company in September 2004.

General and administrative expenses increased to \$1,446,671 for the year ended December 31, 2004 from \$1,247,096 for the year ended December 31, 2003

44

primarily due to an increase in legal and audit related services.

Depreciation and amortization expenses increased to \$196,491 for the year ended December 31, 2004 from \$159,405 for the year ended December 31, 2003, primarily due to the effect of a complete year of depreciation in 2004 compared to a partial year of depreciation in 2003 on those assets purchased in April, 2003.

### Other Items

Amortization of debt discount decreased to \$199,710 for the year ended December 31, 2004 from \$467,000 for the year ended December 31, 2003 due to the effect of the change in the rate of amortization from 12 months to

## Edgar Filing: CNE GROUP INC - Form 10KSB

24 months commencing the date the maturity of the notes was extended.

Interest expense decreased to \$316,051 for the year ended December 31, 2004 from \$423,625 for the year ended December 31, 2003 due primarily to the net effect of a decrease in (i) the average outstanding balance of our indebtedness and effective interest rates, for the year ended December 31, 2004 as compared to the year ended December 31, 2003.

The Tax Settlement adjustment of \$895,622, for the year end December 31, 2003 relates to the accepted and paid Offer in Compromise with the Internal Revenue Service (\$50,000) pertaining to a previous years' estimated \$945,000 tax liability of a subsidiary of the Company.

### Operating Loss

On a pre-tax basis, we had a loss from continuing operations of \$2,333,695 for the year ended December 31, 2004 compared with a loss from continuing operations of \$1,688,990 for the year ended December 31, 2003.

Our loss from continuing operations for the year ended December 31, 2004 was \$2,333,695 compared with a loss from continuing operations of \$1,702,955 for the year ended December 31, 2003. For the year ended December 31, 2004, loss per common share from continuing operations, basic and diluted, was \$0.24 per share. For the year ended December 31, 2003, loss per common share

45

from continuing operations, basic and diluted, was \$0.22 per share.

Income from discontinued operations of \$583,634 for the year ended December 31, 2003 relates to a gain on the sale of one of our subsidiaries. For the year ended December 31, 2003, basic income per common share from discontinued operations was \$0.08 per share and diluted income per common share from discontinued operations was \$0.06 per share.

Our net loss for the year ended December 31, 2004 was \$2,333,695 compared with net a net loss of \$1,119,321 for the year ended December 31, 2003. For the year ended December 31, 2004, basic and diluted net loss per common share was \$0.22 per share. For the year ended December 31, 2003, basic net loss per common share from was \$0.16 per share and diluted net loss per common share was \$0.18 per share.

### B. Liquidity and Capital Resources

As reflected in the 2004 and 2003 financial statements, the Company has incurred substantial losses from continuing operations, sustained substantial cash outflows from operating activities, and at December 31, 2004 had a working capital and stockholders' deficiency. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence depends on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. The Company is attempting to raise additional financing and has initiated a cost reduction strategy. At December 31, 2004 management believes that the working capital deficit, losses and negative cash flow will ultimately be improved by (i) the acquisitions of SRC and ECI (ii) cost reduction strategies initiated in January and June 2004 and (iii) additional equity and debt financing activities in addition to those set forth in the financial statements. In addition, the Company had been notified that, subject to the procedural

## Edgar Filing: CNE GROUP INC - Form 10KSB

requirements of the American Stock Exchange (the "Exchange"), its stock could be delisted. However, on January 2, 2004 the Company received a notice dated December 31, 2003 from the Exchange indicating that the Company had demonstrated compliance with the requirement for continued listing on the Exchange. However, as is the case for all listed issuers, our continued listing eligibility is assessed on an ongoing basis and we continue to be subject to additional scrutiny (as set forth in Section 1009(h) of the AMEX Company Guide) as is the case for any listed Company that has regained compliance. There is no assurance that the Company can obtain additional financing or achieve profitable operations or generate

46

possible cash flow. The 2004 and 2003 financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amount and classification of liabilities that might be necessary as a result of this ongoing concern uncertainty

### Off-Balance Sheet Arrangements

-----

At December 31, 2004, we had no off-balance sheet arrangements.

### Operating Activities

-----

We utilized \$1,220,212 of cash in operating activities during the year ended December 31, 2004. We had a net loss from continuing operations of \$2,333,695 during this period which included an aggregate of \$445,701 of non-cash items, including depreciation and amortization, amortization of debt discount, allowance for doubtful accounts and common stock issued in lieu of cash for professional fees.. In addition to the net impact of non-cash items, our operating activities for the year ended December 31, 2004 also reflected an increase in inventory, accounts payable, accrued expenses and other liabilities. These were offset in part by decreases in accounts receivable, other current and non-current assets and deferred income.

We utilized \$1,361,966 of cash in operating activities during the year ended December 31, 2003. We had a net loss from continuing operations of \$1,702,955 during this period which included an aggregate of (\$70,467) of non-cash items, including depreciation and amortization, amortization of debt discount, allowance for doubtful accounts and common stock issued in lieu of cash for professional fees offset by tax settlement adjustment on a previous year's estimated tax liability. In addition to the net impact of non-cash items, our operating activities for the year ended December 31, 2003 also reflected an increase in accounts and insurance receivable, inventory, accrued expenses and other liabilities, and deferred grant revenue. These were offset in part by decreases other current and non-current assets.

On January 21, 2004, we took several initiatives to address our operating cash deficiency, which included, but were not limited to, the reduction and/or elimination of certain executive salaries, waiving of

47

certain interest payments due officers and/or directors, waiving of

## Edgar Filing: CNE GROUP INC - Form 10KSB

certain accounts receivable due an officer and employee, and the reduction of certain administrative costs. In addition, we raised gross proceeds of \$700,000 in February 2004 from the sale of our common stock (see "Financing Activities" below), and restructured certain short-term credit arrangements into a \$300,000 note payable due in February 2005. Furthermore, in July through December 2004 we restructured and issued approximately \$450,000 of our debt securities.

### Financing Activities

-----

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 certain officers of the Company, and 4,165,800 ten year cashless 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 aggregate number of shares for which the Warrants may be exercised equal 15% of the Company's outstanding Common Stock on a fully-diluted basis. 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 4% 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.

On March 12, 2004, the Company notified the Class B Warrant holders that, to satisfy the 15% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an aggregate of 5,245,200 shares of the Company's common stock at approximately \$0.40 per share. On this date, the Company also exercised its option to extend the maturity date of the notes to April 30, 2005 and satisfied the requirement for the additional 4% non-dilutive interest in the Company by issuing to the noteholders Class B Warrants to purchase an additional 1,708,900 shares of the Company's common stock at \$0.50 per share. The non-dilutive provisions of the Warrants terminate when all of the notes have been paid in full.

48

In April 2005, the Company will notify the Class B Warrant holders that, to satisfy the now 19% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an additional of 1,122,100 shares of the Company's common stock at approximately \$0.40 per share.

In addition, on September 17, 2003, we sold 1,250,000 shares of our common stock at \$0.40 per share to an existing noteholder and stockholder of the Company.

On February 10, 2004, the Company sold 1,750,000 shares of its Common Stock at \$0.40 per share. The net proceeds of the transaction amounted to \$571,000. The Company used the funds obtained from this financing primarily for working capital purposes.

On June 24, 2004 the Company repaid, in full, one of its outstanding lines of credit amounting to approximately \$146,000. On the same date the Company issued a secured note payable to an employee of a subsidiary of

## Edgar Filing: CNE GROUP INC - Form 10KSB

the Company in the amount of \$150,000. This employee is also a director of the Company. The note is secured by the furniture and equipment of a subsidiary of the Company. The note bears interest at 10% per annum and the principal and all interest thereon was due on September 24, 2004. In consideration of extending the maturity date of the note to April 30, 2005 and deferring the payment of all accrued interest for the period June 24, 2004 through April 30, 2005, the individual was issued Warrants to purchase 101,000 shares of the Company's common stock at \$0.28 per share.

In July and August 2004, the Company issued \$150,000 of its 24% Secured Notes due April 30, 2005 to the wife of the Chief Executive Officer and an existing 10% subordinated noteholder of the Company. Interest on the notes is payable quarterly in arrears. The notes are secured by (i) all the stock of SRC and USCL, and (ii) the pledge of Patent Nos. 6,060,979, 6,047,173 and 5,701,338 - all owned by the Company. On October 1, 2004, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$5,867 of interest due on such date to January 1, 2005 in consideration of the Company issuing to them 53,333 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.33 per share. On January 1, 2005, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$9,200 of interest due on such date and further defer the interest that was due and

49

deferred on October 1, 2004 (\$5,867) to April 1, 2005 in consideration of the Company issuing to them 113,000 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.40 per share.

In October 2004, the Company and USCL entered into a two-year Project Financing Agreement with an institutional lender relating to USCL's anticipated participation in the "Cellular Call Box Upgrade and Maintenance Service" projects for numerous Service Authority for Freeway Emergencies ("SAFE") programs within the state of California. These call box programs operate over 17,000 motorist aid analog call boxes that will require upgrades to digital cellular technology available through USCL. We cannot assure you that we will participate in these projects or, if we do, to what extent such participation will be. This agreement provides the Company with finished goods and accounts receivable financing of up to \$2,000,000 relating to these potential aforementioned projects. The effective interest rate is approximately 3% per month on the outstanding balance of the amount receivables financed. The finished goods and accounts receivable to be financed, as well as all the other assets of the Company not previously pledged, will secure the borrowings under this agreement.

In October, November and December 2004, the Company issued (i) \$150,000 of its 10% Convertible Subordinated Notes due June 30, 2005 and (ii) 945,000 Class C Cashless Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.50 per share. The notes were sold to the wife of the Chief Executive Officer of the Company and other accredited investors and are convertible by the holder, at any time, into common stock of the Company at \$0.50 per share. The warrants expire on April 30, 2013. Interest on the notes is due at maturity.

On or about April 1, 2005, two individuals, both of whom are adult children of the Company's Chief Executive Officer, purchased 545,000 shares of the Company's Series G Preferred Stock at a price of \$0.20 per share. The Series G Preferred Stock is non voting, has no liquidating

## Edgar Filing: CNE GROUP INC - Form 10KSB

preference over the common stock and each share is automatically convertible into two shares of common stock when such conversion has been approved by the Company's common stockholders. This transaction was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.

On or about April 12, 2005, four individuals, three of whom are adult children or related thereto of the Company's Chief Executive Officer, purchased 500,000 shares of the Company's Series G Preferred Stock at a price of \$0.20 per share. This transaction was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.

On or about March 15, 2005, the Company borrowed \$25,000 from a lender evidenced by a secured convertible subordinated note due on September 15, 2005 and bearing interest at the annual rate of 20% payable at maturity. The note is (i) secured by approximately \$42,000 in one of the Company's bank accounts; (ii) convertible into the Company's common stock at the rate of \$0.24 per share, subject to certain anti-dilution provisions; and (iii) subordinated to the Company's Senior Indebtedness as that term is defined therein. At April 15, 2005 the outstanding principal balance of the note was \$15,000. In addition, on or about April 11, 2005, the Company sold to this lender, for an aggregate purchase price of \$100,000, 333,333 shares of restricted common stock and three-year warrants to purchase an aggregate of 100,000 shares at \$0.50 per share, subject to appropriate anti-dilution provisions. The sale of the restricted stock and warrants was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.

We are using the funds obtained from these financings for working capital. The financings were effected pursuant to the exemption from the registration provisions of the Securities Act of 1993 provided by Section 4(2) thereof.

We did not have any material commitments for capital expenditures as of December 31, 2004.

### C. Inflation

-----

50

We believe that inflation does not significantly impact our current operations.

### Item 7. Financial Statements.

Our financial statements to be filed hereunder follow, beginning with page F-1.

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of CNE Group, Inc.

We have audited the accompanying balance sheets of CNE Group, Inc. and

## Edgar Filing: CNE GROUP INC - Form 10KSB

Subsidiaries as of December 31, 2004, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CNE Group, Inc. and Subsidiaries as of December 31, 2004, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced substantial losses and sustained net operating cash outflows from continuing operations and anticipates that such conditions will continue into fiscal year 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note A. The financial statements do not include any adjustments

WHEELER, HERMAN, HOPKINS & LAGOR, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

Tampa, Florida  
April 15, 2005

F-1

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of CNE Group, Inc.

We have audited the consolidated statements of operations, changes in (capital deficit) stockholders' equity and cash flows for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a

## Edgar Filing: CNE GROUP INC - Form 10KSB

reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of CNE Group, Inc. and Subsidiaries for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced substantial losses and sustained net operating cash outflows from continuing operations and anticipates that such conditions will continue into fiscal year 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York

March 5, 2004

F-2

### CNE GROUP, INC. AND SUBSIDIARIES

#### Consolidated Balance Sheet

December 31, 2004

#### ASSETS

##### Current:

Cash and cash equivalents	\$ 84,408
Accounts receivable, net of allowance for doubtful accounts of \$51,000	172,010
Inventory	260,487
Other	8,273

Total current assets	525,178
Fixed assets, net	394,509
Intellectual property rights, net	1,361,948
Goodwill	7,285,894
Prepaid expenses and other assets	21,265

Total assets	\$ 9,588,794
--------------	--------------

#### LIABILITIES

##### Current:

Accounts payable and accrued expenses	\$ 1,476,124
Interest payable	128,050
Short-term credit arrangements	191,395
Line of credit	19,199
Current portion of notes payable	17,243
Notes and debenture payable	850,000
10% subordinated notes payable	966,710
Other notes payable	23,330



Edgar Filing: CNE GROUP INC - Form 10KSB

Total current liabilities	3,672,051
Notes payable, net of current portion	22,059
Deferred grant revenue	300,000
	-----
Total liabilities	3,994,110
	-----
Commitments and contingencies (Note N)	
STOCKHOLDERS' EQUITY	
Preferred stock (Notes A and I)	134
Common stock (Notes A and J)	121
Paid-in surplus	29,919,185
Accumulated deficit	(21,451,656)
	-----
	8,467,784
Less treasury stock, at cost - 1,238,656 shares	(2,873,100)
	-----
Total stockholders' equity	5,594,684
	-----
Total liabilities and stockholders' equity	\$ 9,588,794
	=====

See Notes to Consolidated Financial Statements.

F-3

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended December 31,	
	2004	2003
	-----	-----
Revenues:		
Product sales	\$ 1,884,751	\$ 1,445,324
Service fee income	686,647	548,762
Internet related income	104,588	155,284
	-----	-----
	2,675,986	2,149,370
Costs of goods sold	1,553,749	1,176,900
	-----	-----
Gross profit	1,122,237	972,470
Other expenses:		
Advertising	35,522	47,806
Compensation and related costs	1,081,175	1,212,150
General and administrative	1,446,671	1,247,096
Product development	183,319	--
Depreciation and amortization	196,491	159,405
	-----	-----
	2,943,177	2,666,457
	-----	-----
Loss from continuing operations before other income and (expenses)	(1,820,940)	(1,693,987)
Amortization of debt discount	(199,710)	(467,000)
Interest expense	(316,051)	(423,625)

Edgar Filing: CNE GROUP INC - Form 10KSB

Tax settlement adjustment (Note M)	--	895,622
Interest income	3,006	--
	-----	-----
Loss from continuing operations before income taxes	(2,333,695)	(1,688,990)
Income tax provision	--	13,965
	-----	-----
Loss from continuing operations	(2,333,695)	(1,702,955)
Discontinued operations:		
Income from discontinued operations	--	583,634
	-----	-----
Net income (loss)	\$ (2,333,695)	\$ (1,119,321)
	=====	=====

See Notes to Consolidated Financial Statements.

F-4

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations, continued

	Year Ended December 31,	
	2004	2003
	-----	-----
Income (loss) per common share:		
Basic:		
Loss from continuing operations	\$ (.22)	\$ (.24)
Income from discontinued operations	--	.08
	-----	-----
Net income (loss)	\$ (.22)	\$ (.16)
	=====	=====
Diluted:		
Loss from continuing operations	\$ (.22)	\$ (.24)
Income from discontinued operations	--	.06
	-----	-----
Net income (loss)	\$ (.22)	\$ (.18)
	=====	=====
Weighted average number of common shares outstanding:		
Basic	10,545,082	7,161,756
	=====	=====
Diluted	10,545,082	10,541,956
	=====	=====

See Notes to Consolidated Financial Statements.

F-5

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in (Capital Deficit) Stockholders' Equity  
Years ended December 31, 2004 and 2003

Edgar Filing: CNE GROUP INC - Form 10KSB

	Common Stock		Preferred Stock	
	Shares	Amount	Shares	Amount
Balance - January 1, 2003	6,829,600	\$ 682,960		\$ --
Portion of \$1,000,000 10% Subordinated Notes deemed Equity subject to amortization				
Effect of change in par value from \$0.10 to \$0.00001		(682,892)		
Stock issued related to acquisition of SRC, Connectivity, Econo-Comm and related intellectual property rights	899,971	9	11,438,241	114
Stock options issued for services, at market value				
Conversion of \$2,300,000 12% Debentures Payable and related interest to Equity	1,150,000	12		
Conversion of \$1,000,000 8% Promissory Notes to Equity			1,000,000	10
Sale of common stock for cash	1,250,000	12		
Capital contributions by officers, directors and stockholders in the form of compensation and interest forgiveness				
Net loss				
Balance - January 1, 2004	10,129,571	\$ 101	12,438,241	\$ 124
Sale of common stock for cash	1,750,000	18		
Conversion of \$1,000,000 8% Promissory Notes to Equity			1,000,000	100
Common stock issued for services, at market value	150,000	2		
Capital contributions by an officer and employee in the form of interest forgiveness				
Net loss				
Balance - December 31, 2004	12,029,571	\$ 121	13,438,241	\$ 134

	Treasury Stock		Total
	Shares	Amount	
Balance - January 1, 2003	1,238,656	\$ (2,873,100)	\$ (3,898,089)
Portion of \$1,000,000 10% Subordinated Notes deemed Equity subject to amortization			699,000
Effect of change in par value from \$0.10 to \$0.00001			--
Stock issued related to acquisition of SRC, Connectivity, Econo-Comm and			

Edgar Filing: CNE GROUP INC - Form 10KSB

related intellectual property rights			6,095,959
Stock options issued for services, at market value			135,250
Conversion of \$2,300,000 12% Debentures Payable and related interest to Equity			2,645,000
Conversion of \$1,000,000 8% Promissory Notes to Equity			1,000,000
Sale of common stock for cash			500,000
Capital contributions by officers, directors and stockholders in the form of compensation and interest forgiveness			209,580
Net loss			(1,119,321)
	-----	-----	-----
Balance - January 1, 2004	1,238,656	\$ (2,873,100)	\$ 6,267,379
Sale of common stock for cash			571,000
Conversion of \$1,000,000 8% Promissory Notes to Equity			1,000,000
Common stock issued for services, at market value			50,000
Capital contributions by an officer and employee in the form of interest forgiveness			40,000
Net loss			(2,333,695)
	-----	-----	-----
Balance - December 31, 2004	1,238,656	\$ (2,873,100)	\$ 5,594,684
	=====	=====	=====

See Notes to Consolidated Financial Statements.

F-6

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Loss from continuing operations	\$ (2,333,695)	\$ (1,702,000)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	196,491	159,000
Issuance of common stock for services	50,000	135,000
Provision for doubtful accounts	(500)	16,000
Amortization of debt discount	199,710	467,000
Tax settlement adjustment		(895,000)
Changes in:		
Accounts receivable	35,848	(123,000)
Inventory	(13,768)	(15,000)
Prepaid expenses and other assets	17,263	15,000
Accounts payable, accrued expenses and other liabilities	652,059	551,000
Deferred revenue	(23,620)	23,000

Edgar Filing: CNE GROUP INC - Form 10KSB

Deferred grant revenue		8,
	-----	-----
Cash used in continuing operations	(1,220,212)	(1,361,
Cash provided by discontinued operations	--	
	-----	-----
Net cash used in operating activities	(1,220,212)	(1,361,
	-----	-----
Cash flows from investing activities:		
Purchase of furniture and equipment	(30,224)	(35,
	-----	-----
Net cash used in investing activities	(30,224)	(35,
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance 1,250,000 shares of Common Stock	--	500,
Proceeds from issuance 1,750,000 shares of Common Stock	571,000	
Proceeds from issuance of 10% notes payable		1,000,
Proceeds from other notes payable		300,
Proceeds from 18% note payable	300,000	
Proceeds from 10% secured notes payable	150,000	
Proceeds from 24% secured notes payable	150,000	
Proceeds from 10% convertible notes payable	150,000	
Principal repayments on notes payable and line of credit	(446,988)	(24,
Payment of accounts receivable due Sellers of Econo-Comm, Inc.	--	(100,
	-----	-----
Net cash provided by financing activities	874,012	1,675,
	-----	-----
(Decrease) increase in cash and cash equivalents	(376,424)	277,
Cash and cash equivalents at beginning of period	460,832	183,
	-----	-----
Cash and cash equivalents at end of period	\$ 84,408	\$ 460,
	=====	=====

See Notes to Consolidated Financial Statements.

F-7

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

	Year Ended De
	-----
	2004
	-----
Supplemental disclosures of cash flow information related to continuing operations:	
Cash paid during the period for:	
Interest	\$ 171,341
Income taxes	\$ --

Non-cash investing and financing activities relating to the acquisition of

## Edgar Filing: CNE GROUP INC - Form 10KSB

subsidiaries and certain intellectual property rights:

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

Non-cash investing and financing activities relating to the conversion of certain notes and debentures, sale of common stock, and capital contributions of significant stockholders, and directors and officers:

Accounts payable and accrued expenses	
Interest payable	40,000
8% notes payable	1,000,000
Debentures payable and related interest payable	
Issuance of preferred stock	(10)
Issuance of common stock	
Paid in surplus	(1,039,990)

Other non-cash investing and financing activities - See Note Q

See Notes to Consolidated Financial Statements.

F-8

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE A - THE COMPANY

Business

-----

CNE Group, Inc. (the "Company" or "CNE") is a holding company whose primary operating subsidiaries are SRC Technologies, Inc. ("SRC") and U.S. Commlink, Ltd. ("USCL"). SRC, also a holding company, is the parent of Connectivity, Inc. ("Connectivity") and Econo-Comm, Inc. (d/b/a Mobile Communications) ("ECI"). Connectivity, ECI and USCL 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. The Company 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 subsidiary, CareerEngine, Inc., which is engaged in the business of e-recruiting. This segment is not significant to the operations of the Company.

Going Concern

-----

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As reflected in the 2004 and 2003 financial statements, the Company has incurred substantial losses from continuing operations, sustained substantial cash outflows from operating

## Edgar Filing: CNE GROUP INC - Form 10KSB

activities, and at December 31, 2004 had a working capital and stockholders' deficiency. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence depends on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. The Company is attempting to raise additional financing and has initiated a cost reduction strategy. At December 31, 2004 management believes that the working capital deficit, losses and negative cash flow will ultimately be improved by (i) the acquisitions of SRC and ECI (ii) cost reduction strategies initiated in January and June 2004 and (iii) additional equity and debt financing activities in addition to those set forth in these financial statements. The Company had been notified that, subject to the procedural requirements of the American Stock Exchange, its stock could be delisted. There is no assurance that the Company can obtain additional financing or achieve profitable operations or generate positive cash flow. The 2004 and 2003 financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amount and classification of liabilities that might be necessary as a result of this going concern uncertainty.

### 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 Stock Exchange 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.

F-9

### CNE GROUP, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements December 31, 2004 and 2003

#### NOTE A - THE COMPANY (CONTINUED)

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.

Ms. Gutowski, and Messrs. Gutowski and Reid, resigned from the Board of Directors of the Company on June 28, 2004 and January 11, 2005, respectively. They were terminated as officers of the Company on September 7, 2004. Anthony S. Conigliaro, Vice President and Chief Financial Officer of the Company, was appointed to the Board of Directors on June 18, 2004. Gary L. Eichsteadt, an employee of the Company and a substantial holder of the Company's Series AA and Series C Preferred Stock, was appointed to the Company's Board of Directors on January 11, 2005.

## Edgar Filing: CNE GROUP INC - Form 10KSB

In addition, on April 23, 2003, the Board of Directors and a majority of the stockholders approved the reorganization of the Company and pursuant to Accounting Standards ARB 43 which increased the authorized number of shares of common stock to 40,000,000 shares with a par value of \$0.00001 per share and increased 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) 899,971 shares of its common stock, (ii) 1,697,966 shares of its non-voting Series A Preferred Stock and an equal number of ten year 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, each to purchase one share of the Company's Common Stock at a \$1.00 per share, 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 consolidated financial statements include the operating results of SRC and ECI from the date of acquisition. The details of such transactions are set forth below.

SRC  
---

On April 23, 2003, the Company issued to Mr. and Ms. Gutowski, the former principal common stockholders of SRC, an aggregate of 4,867,937 shares of its non-voting Series C Preferred Stock and an equal 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 I.

The Company issued to the other former common stockholders of SRC, including Mr. Reid, an aggregate of 899,971 shares of its Common Stock, 1,697,966 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 I.

F-10

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE A - THE COMPANY (CONTINUED)

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 I.

ECI  
---



## Edgar Filing: CNE GROUP INC - Form 10KSB

Also, on April 23, 2003, the Company issued to Gary L. Eichsteadt and Thomas L. Sullivan, the former stockholders of ECI, an aggregate of 4,867,938 shares of its Series C Preferred Stock and an equal number of 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 I). In addition, Messrs. Eichsteadt and Sullivan retained certain of ECI's trade receivables aggregating approximately \$100,000. The Company also acquired a patent ("ECI 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. The notes were secured by a certain Pledge Agreement - see Note H. 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 rights to the ECI Patent to SRC. On August 19, 2004 SRC transferred its rights to the ECI Patent to the Company to secure certain 24% Promissory Notes amounting to \$150,000 issued by the Company.

On May 19, 2003, Mr. Eichsteadt assigned \$1,500,000 of the aforementioned 8% notes equally to Mr. Sullivan, Mr. Gutowski and Ms. Gutowski. On August 31, 2003, Mr. and Ms. Gutowski converted their notes aggregating \$1,000,000 into 1,000,000 shares of the Company's Series AA Preferred Stock. Further on June 18, 2004, Mr. Eichsteadt and Mr. Sullivan converted their notes aggregating \$1,000,000 into 1,000,000 shares of the Company's Series AA Preferred Stock.

The Series AA Preferred Stock has a liquidating preference over all other CNE equity of \$2,000,000. The Series A Preferred Stock has a liquidating preference over all other CNE equity except the Series AA of \$1,697,961. The Series B Preferred Stock has a liquidating preference over all other CNE equity except the Series AA and A Preferred Stock of \$440,000. The Series C Preferred Stock has no liquidating preference.

The total consideration, including acquisition costs, was allocated based on the estimated fair values of the net assets and liabilities acquired on the acquisition date.

	ECI -----	SRC -----	Total -----
Tangible assets	\$ 588,492	\$ 292,979	\$ 881,471
Patents	1,379,789	170,820	1,550,609
Goodwill	2,766,233	4,519,661	7,285,894
Liabilities	(2,144,771)	(857,033)	(3,001,804)
	-----	-----	-----
Net asset value	\$ 2,589,743	\$ 4,126,427	\$ 6,716,170
	=====	=====	=====

F-11

### NOTE A - THE COMPANY (CONTINUED)

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

On January 10, 2005, as part of the settlement of a litigation with the Company, Messrs. Reid and Gutowski and Ms. Gutowski agreed to exchange all of their Class AA, Class A and Class C Preferred Stock, and all of their

## Edgar Filing: CNE GROUP INC - Form 10KSB

1,550,000 incentive stock options for 850,000 shares of the Company's common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005.

### 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 4,165,800 ten year cashless 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 aggregate number of shares for which the Warrants may be exercised equal 15% of the Company's outstanding Common Stock on a fully-diluted basis. 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 4% 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.

On March 12, 2004, the Company notified the Class B Warrant holders that, to satisfy the 15% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an aggregate of 5,245,200 shares of the Company's common stock at approximately \$0.40 per share. On this date, the Company also exercised its option to extend the maturity date of the notes to April 30, 2005 and satisfied the requirement for the additional 4% non-dilutive interest in the Company by issuing to the noteholders Class B Warrants to purchase an additional 1,708,900 shares of the Company's common stock at \$0.50 per share. The non-dilutive provisions of the Warrants terminate when all of the notes have been paid in full. In April 2005, the Company will notify the Class B Warrant holders that, to satisfy the now 19% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an additional of 1,122,100 shares of the Company's common stock at approximately \$0.40 per share.

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 stockholder of the Company.

F-12

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE A - THE COMPANY (CONTINUED)

3. On January 21, 2004, a secured factoring arrangement with an individual, which amounted to \$300,000 at December 31, 2003, was restructured into a \$300,000 unsecured Note Payable due February 10, 2005. The individual was also issued Class BB Warrants to purchase 150,000 shares of the Company's common stock at \$0.50 per share. The

## Edgar Filing: CNE GROUP INC - Form 10KSB

Company is currently negotiating new terms with regard to this note.

4. On February 10, 2004, the Company sold 1,750,000 shares of its Common Stock at \$0.40 per share. The net proceeds of the transaction amounted to \$571,000. The Company used the funds obtained from this financing primarily for working capital purposes.
5. On June 9, 2004, the two holders of the Company's 8% Subordinated Promissory Notes, in the aggregate principal amount of \$1,000,000, converted their notes into 1,000,000 shares of the Company's Series AA 8% Cumulative Preferred Stock, par value \$0.00001 per share (the "Series AA Preferred Stock").
6. On June 10, 2004, as amended as of September 28, 2004, an officer and employee of a subsidiary relinquished all their rights to an aggregate 420,000 vested incentive stock options of the Company for 104 equal weekly cash payments, commencing December 1, 2004, aggregating \$50,000. The individuals or their designee were also issued, in the aggregate, Warrants to purchase 235,000 shares of the Company's common stock at \$0.28 per share.
7. In June 2004, in an effort to conserve the financial resources of the Company, the Board of Directors of the Company deferred 100% of the salaries of four officers of the Company until such time as the Board deems otherwise. In September 2004, three of the aforementioned officers were terminated by the Company. The accompanying financial statements include the accrued salary owed to the non-terminated officer for the amounts so deferred.
8. On June 24, 2004 the Company repaid, in full, one of its outstanding lines of credit amounting to approximately \$146,000. On the same date the Company issued a secured note payable to an employee of a subsidiary of the Company in the amount of \$150,000. The note is secured by the furniture and equipment of a subsidiary of the Company. The note bears interest at 10% per annum and the principal and all interest thereon was due on September 24, 2004. In consideration of extending the maturity date of the note to April 30, 2005 and deferring the payment of all accrued interest for the period June 24, 2004 through April 30, 2005, the individual was issued Warrants to purchase 101,000 shares of the Company's common stock at \$0.28 per share.
9. As of July 1, 2004, the holders of 55% of the Company's 10% subordinated notes agreed to defer \$13,750 of interest due on such date to October 1, 2004 in consideration of the Company issuing to them 105,769 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.39 per share. The noteholders include two officers of the Company.

F-13

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE A - THE COMPANY (CONTINUED)

10. In July and August 2004, the Company issued \$150,000 of its 24%

## Edgar Filing: CNE GROUP INC - Form 10KSB

Secured Notes due April 30, 2005 to the wife of the Chief Executive Officer and an existing 10% subordinated noteholder of the Company. Interest on the notes is payable quarterly in arrears. The notes are secured by (i) all the stock of SRC and USCL, and (ii) the pledge of Patent Nos. 6,060,979, 6,047,173 and 5,701,338 - all owned by the Company. On October 1, 2004, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$5,867 of interest due on such date to January 1, 2005 in consideration of the Company issuing to them 53,333 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.33 per share. On January 1, 2005, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$9,200 of interest due on such date and further defer the interest that was due and deferred on October 1, 2004 \$5,867 to April 1, 2005 in consideration of the Company issuing to them 113,000 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.40 per share.

11. As of October 1, 2004, the holders of 75% of the Company's 10% subordinated notes agreed to defer \$18,750 of interest due on such date and further defer the interest that was due and deferred on July 1, 2004 \$13,750 to January 1, 2005 in consideration of the Company issuing to them 295,455 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.33 per share. The noteholders include two officers of the Company.
12. In October 2004, the Company and USCL entered into a two-year Project Financing Agreement with an institutional lender relating to USCL's anticipated participation in the "Cellular Call Box Upgrade and Maintenance Service" projects for numerous Service Authority for Freeway Emergencies ("SAFE") programs within the state of California. These call box programs operate over 17,000 motorist aid analog call boxes that will require upgrades to digital cellular technology available through USCL. This agreement provides the Company with finished goods and accounts receivable financing of up to \$2,000,000 relating to these potential aforementioned projects. The effective interest rate is approximately 3% per month on the outstanding balance of the amount receivables financed. The finished goods and accounts receivable to be financed, as well as all the other assets of the Company not previously pledged, will secure the borrowings under this agreement.
13. In October, November and December 2004, the Company issued (i) \$150,000 of its 10% Convertible Subordinated Notes due June 30, 2005 and (ii) 945,000 Class C Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.50 per share. The notes were sold to the wife of the Chief Executive Officer of the Company and other accredited investors and are convertible by the holder, at any time, into common stock of the Company at \$0.50 per share. The warrants expire on April 30, 2013. Interest on the notes is due at maturity.

F-14

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

## Edgar Filing: CNE GROUP INC - Form 10KSB

### NOTE A - THE COMPANY (CONTINUED)

14. As of January 1, 2004, the holders of 75% of the Company's 10% subordinated notes agreed to defer \$18,750 of interest due on such date and further defer the interest that was due and deferred on July 1 \$13,750 and October 1, 2004 \$18,750 to April 1, 2005 in consideration of the Company issuing to them 384,375 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.30 per share. The noteholders include two officers of the Company.

The Company is using the funds obtained from these financings primarily for working capital purposes as well as to pay certain ECI notes payable. The aforementioned financings were effected pursuant to the exemption from the registration provisions of the Securities Act of 1933 provided by Section 4(2) thereof.

#### Catastrophe on September 11, 2001

-----

On September 11, 2001 the Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. In April and September 2002, and in August 2003, the Company received government assistance grants aggregating \$300,000. The grants have a restriction that could require their repayment, specifically if the Company were to relocate a substantial portion of 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, repay such grants if the above condition is not satisfied.

#### American Stock Exchange Listing

-----

On January 2, 2004 the Company received a notice dated December 31, 2003 from the American Stock Exchange Staff indicating that the Company had demonstrated compliance with the requirements necessary for continued listing on the American Stock Exchange.

As is the case for all listed issuers, the Company's continued listing eligibility will be assessed on an ongoing basis; however, the Company continues to be subject to additional scrutiny (as set forth in Section 1009(h) of the AMEX Company Guide) as is the case for any listed Company that has regained compliance.

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES

#### [1] Principles of consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SRC and CareerEngine Network, Inc. ("CareerEngine Network"). All significant intercompany balances and transactions have been eliminated.

F-15

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

## Edgar Filing: CNE GROUP INC - Form 10KSB

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES

[2] 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.

E-recruiting fees are earned on job placement advertisements and sponsorship advertisements on the Company's website 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.

[3] Depreciation and amortization:

Furniture, fixtures and equipment are being depreciated using the straight-line method over estimated lives of three to seven years. Computer equipment is being depreciated on a straight-line basis over an estimated life of three to five years.

Leasehold improvements were amortized on a straight-line basis over the shorter of the term of the lease or their estimated useful lives.

[4] Cash and cash equivalents:

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2004 cash equivalents consisted principally of an investment of approximately \$42,000 in a money market account securing a letter of credit issued by the Company. At December 31, 2003 there were no cash equivalents.

[5] Accounts and Trade Receivables:

The Company extends credit to its customers on an unsecured basis in the ordinary course of business but mitigates the associated credit risk by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts has been established since management is of the opinion that all accounts receivable may not be fully collectible. The allowance for doubtful accounts is based on an estimated percentage of overall accounts receivable.

[6] Concentration of Credit Risk:

Financial instruments that subject the Company to risk of loss consist principally of accounts receivable, deposits with financial institutions. The Company grants credit terms to customers in the normal course of doing business. Credit risk with respect to trade receivables is considered

F-16

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

## Edgar Filing: CNE GROUP INC - Form 10KSB

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

minimal due to the Company's diverse customer base throughout the United States and strict enforcement of its credit policies. The Company generally does not require security deposits or other collateral to support credit sales. The consolidated financial statements have been adjusted for anticipated losses thereon. Deposits held with banks may exceed the amount of insurance provided on such deposits.

The Company's sales are made primarily to customers throughout the United States. Non-U.S. customers are required to pay in U.S. Dollars when the order is placed. There were no sales to non-U.S. customers for the fiscal year ended December 31, 2004 and 2003. During the fiscal year ended December 31, 2004, only one customer, Motorola, Inc., accounted for ten percent (10%) or more of the Company's sales, and credit losses were not significant. During the fiscal year ended December 31, 2003 no customer accounted for more than ten percent (10%) or more of the Company's sales, and credit losses were not significant.

[7] Inventory:

Inventory is stated at the lower of cost (determined by first-in, first-out method) or market. At December 31, 2004 the Company's inventory consisted of the following:

Raw materials	\$ 242,061
Work in progress	15,926
Finished goods	2,500
	-----
Total	\$ 260,487
	=====

[8] 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 ("BEPS") is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. Diluted earnings per share ("DEPS") is computed by dividing net income (loss) used indetermining BEPS 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 certain dilutive stock options and warrants.

The reconciliation of shares used to calculate BEPS and DEPS (loss) per share consists of the following:

	Year Ended December 31,	
	2004	2003
	-----	-----
Shares used in BEPS computations -		
weighted average shares outstanding	--	7,161,756
		10,545,082
Net effect of dilutive common share equivalents	--	3,380,200
		-----
Shares used in DEPS computations	10,545,082	10,541,956
	=====	=====

# Edgar Filing: CNE GROUP INC - Form 10KSB

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Common stock equivalents to purchase common stock of the Company that were outstanding at December 31, 2004 were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive. The anti-dilutive common stock equivalents for December 31, 2004, and the common stock equivalents for December 31, 2003 consist primarily of incentive stock options, convertible debentures that are convertible into Common Stock of the Company at an approximate conversion price of \$2.00 and warrants to purchase common stock of the Company at prices that range from \$0.50 - \$6.00.

### [9] Income taxes:

Deferred income taxes are measured by applying enacted statutory rates in effect at the balance sheet date to net operating loss carryforwards and to the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The resulting deferred tax asset as of December 31, 2004 and 2003 was fully reserved since the likelihood of realization of future tax benefits cannot be established.

### [10] Financial instruments:

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments ("SFAS 107"), defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company's carrying value of cash, accounts receivable, inventory, accounts payable, short-term credit arrangements, lines of credit, notes payable, and subordinated debt approximates fair value because the instruments have a short-term maturity or because the applicable interest rates are comparable to current investing or borrowing rates of those instruments.

### [11] 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.



CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At December 31, 2004, the Company had a stock-based employee compensation plan - the 2003 Plan. Two of Company's subsidiaries each had separate stock-based employee compensation plans. These subsidiaries' 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 of 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.

	Year Ended December	
	2004	2003
	-----	-----
Net loss , as reported	\$ (2,333,695)	\$ (1,800,000)
Less, Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	--	--
	-----	-----
Pro forma net loss	\$ (2,333,695)	\$ (1,800,000)
	=====	=====
Net loss per share:		
As reported:		
Basic	\$ (0.22)	\$ (0.22)
	=====	=====
Diluted	\$ (0.22)	\$ (0.22)
	=====	=====
Pro forma:		
Basic	\$ (0.22)	\$ (0.22)
	=====	=====
Diluted	\$ (0.22)	\$ (0.22)
	=====	=====

On April 30, 2003, incentive stock options to purchase 1,987,500 shares of our common stock were granted by the Incentive Compensation Committee 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 our common stock

## Edgar Filing: CNE GROUP INC - Form 10KSB

were granted by the Incentive Compensation Committee to three officers of the Company at a weighted average exercise price of \$1.09 per share. On January 21, 2004, incentive stock options to purchase 601,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer and eighteen employees of the Company at a weighted average exercise price of \$0.50 per share. On September 12, 2004 incentive stock options to purchase 500,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer of the Company at an exercise price of \$0.28 per share. On December 1, 2004, incentive stock options to purchase 110,000 shares of our common stock were granted by the Incentive

F-19

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensation Committee to fifteen employees of the Company at a weighted average exercise price of \$0.40 per share. On April 30, 2003 (435,000), November 4, 2003 (220,000) and November 21, 2003 (100,000), January 21, 2004 (295,500), September 12, 2004 (900,000) non-qualified stock options to purchase an aggregate 1,950,500 shares of our common stock were granted by the Board of Directors to certain independent contractors and outside directors of the Company. No options granted have been exercised.

On June 10, 2004, as amended pursuant to an Agreement dated as of September 28, 2004, an officer and an employee of the Company entered into an Option Cancellation Agreement pertaining to 420,000 incentive stock options issued on January 21, 2004 relinquishing all rights and title to their award in consideration of 104 equal weekly cash payments aggregating \$50,000.

On January 10, 2005, as part of the settlement of a litigation with the Company, Messrs. Reid (300,000) and Gutowski (775,000) and Ms. Gutowski (475,000) agreed to exchange all of their incentive stock options, as well as all of their Class AA and Class C Preferred Stock for 850,000 shares of the Company's common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005.

#### [12] 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.

#### [13] Advertising costs:

Advertising costs, which amounted to \$35,522 and \$47,806 for the years ended December 31, 2004 and 2003, respectively, are expensed as incurred.

#### [14] Warranty Expense:

## Edgar Filing: CNE GROUP INC - Form 10KSB

The Company generally warrants its products against defects for a period of one to three years. A provision for estimated future costs relating to warranties is recorded when products are shipped and revenue recognized. At December 31, 2004 and 2003, estimated future costs relating to warranties were \$1,000 and \$40,260, respectively.

[15] 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

F-20

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 years ended December 31, 2004 and 2003.

[16] Intellectual Property Rights and Goodwill:

In July 2001, the FASB issued SFAS No. 141, Business Combinations ("SFAS 141"), and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. SFAS 142 requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous standards required. Furthermore, SFAS 142 requires intangible assets, other than goodwill, to be amortized over their useful lives unless these lives are determined to be indefinite. Other intangible assets are carried at cost less accumulated amortization. Intellectual Property Rights acquired by the Company in the ECI business combination in April 2003 (see Note A) are being amortized on a straight-line basis over the shorter of the remaining lives of the patents when acquired or their estimated useful remaining lives, generally eleven to fourteen years. No goodwill impairment charge was recorded in 2004 in accordance with SFAS No. 142.

[17] Startup Activities

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

[18] Recent accounting pronouncements:

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities (VIE's), and a revision to FIN 46 in December 2003 (together, "FIN 46"), which requires identification of the Company's participation in VIE's. VIE's are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack

## Edgar Filing: CNE GROUP INC - Form 10KSB

certain characteristics of a controlling financial interest. For entities identified as VIE's, FIN 46 sets forth a model to evaluate potential consolidation based on the assessment of which party to a VIE, if any, bears a majority of the risk of the VIE's expected losses, or stands to gain from a majority of the VIE's expected returns. FIN 46 also sets forth certain disclosures regarding interest in VIE's that are deemed significant, even if consolidation is not required. FIN 46 is effective for all VIE's created after January 31, 2003. The Company adopted FIN 46 during 2003 and the adoption of this interpretation did not have an impact on the Company's consolidated financial statements in 2004 or 2003.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both

F-21

### CNE GROUP, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

December 31, 2004 and 2003

#### NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The Company adopted this standard during 2003 and the adoption did not have an impact on the Company's consolidated financial statements in 2004 or 2003.

During December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 153, Exchanges of Nonmonetary Assets -- An Amendment of APB Opinion No. 29. APB Opinion No. 29, Accounting for Nonmonetary Transactions ("APB 29") required that nonmonetary exchanges be accounted for at fair value, subject to certain exceptions. SFAS 153 has removed the exception for nonmonetary exchanges of similar productive assets, and replaced it with an exception for exchanges that lack commercial substance. The provisions of SFAS 153 are effective prospectively for all nonmonetary asset exchanges in fiscal periods beginning after June 15, 2004. Early adoption is permitted. The Company does not expect the adoption of SFAS No. 153 to have a material impact on the Company's consolidated financial statements.

During December 2004, FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires companies to recognize the compensation cost related to share-based payment transactions with employees in the financial statements. The compensation cost is measured based upon the fair value of the instrument issued. Share-based compensation transactions with employees covered within SFAS 123R include share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123 included a fair-value-based method of accounting for share-based payment transactions with employees, but allowed companies to continue to apply the guidance in APB 25 provided that they disclose in the footnotes to the financial statements the pro forma net income if the

## Edgar Filing: CNE GROUP INC - Form 10KSB

fair-value-based method been applied. The Company is currently reporting share-based payment transactions with employees in accordance with APB 25 and provides the required disclosures. SFAS 123R will be effective for the Company beginning January 1, 2006.

In implementing SFAS 123R the Company will apply the modified prospective application transition method. The modified prospective application transition method requires the application of this standard to:

- o All new awards issued after the effective date;
- o All modifications, repurchased or cancellations of existing awards after the effective date; and
- o Unvested awards at the effective date.

F-22

### CNE GROUP, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

December 31, 2004 and 2003

#### NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For unvested awards, the compensation cost related to the remaining "requisite service" that has not been rendered at the effective date will be determined by the compensation cost calculated currently for either recognition or pro forma disclosures under SFAS 123. The Company will be adopting the modified prospective application of SFAS 123R.

#### NOTE C - FIXED ASSETS, NET

Fixed assets, net consists of the following at December 31, 2004:

Machinery and equipment	\$ 439,808
Office and computer equipment	66,048
Transportation equipment	23,873
Furniture and fixtures	40,505
	-----
	570,234
Less, accumulated depreciation	(175,725)
	-----
Fixed assets, net	\$ 394,509
	=====

Depreciation expense for the years ended December 31, 2004 and 2003 totaled \$83,294 and \$83,941, respectively.

#### NOTE D - INTELLECTUAL PROPERTY RIGHTS AND GOODWILL

Detail of intellectual property rights and goodwill is as follows at December 31, 2004:

Intellectual property rights:

Intellectual property rights, stated at lower of cost or fair market value	\$ 1,550,609
Less, accumulated amortization	(188,661)
	-----

## Edgar Filing: CNE GROUP INC - Form 10KSB

Intellectual property rights, net	\$ 1,361,948 =====
-----------------------------------	-----------------------

The estimated future amortization expense of intellectual property rights is as follows:

2005	\$ 113,196
2006	113,196
2007	113,196
2008	113,196
2009	113,196
Thereafter	795,968
	-----
Total	\$ 1,361,948 =====

Additional amortization will be recognized in future periods if impairment of the rights occurs. Amortization expense for the year ended December 31, 2004 totaled \$113,196.

F-23

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE D - INTELLECTUAL PROPERTY RIGHTS AND GOODWILL

##### Goodwill:

Gross carrying amount	\$7,285,894
Less, impairment charge	--
	-----
Total goodwill	\$7,285,894 =====

The Company is required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. In 2004, the Company did not incur any goodwill impairment. Future goodwill impairment tests may result in charges to earnings if the Company determines that goodwill has become impaired.

The Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value of goodwill is determined by using a valuation model based on a market capitalization approach. Fair value of the intangible assets is determined by discounted future cash flows, appraisals or other methods. If the intangible asset determined to be impaired is to be held and used, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value.

#### NOTE E - SHORT-TERM FINANCING ARRANGEMENTS

The Company accounts for credit card obligations as short-term financing arrangements. The obligations require minimum monthly payments that are based on approximately 3% of the outstanding balance and interest accrues on the outstanding balances at rates ranging from 10.5% to 25%. Outstanding balances of these obligations aggregated \$48,931 at December 31, 2004.

From time to time during 2004, the Company factored its accounts receivables

## Edgar Filing: CNE GROUP INC - Form 10KSB

with a financial institution and an individual. Funds are advanced to the Company based on 75% of submitted accounts receivables. Interest is charged at the effective rate of 3.33% - 4.00% per month. The submitted accounts receivable secure the advances to the Company. At December 31, 2004 such factoring arrangements amounted to \$142,464.

### NOTE F - LINES OF CREDIT

The Company has the following line of credit at December 31, 2004:

\$20,000 unsecured line of credit with a bank. Interest payments are due monthly, which are calculated at At December 31, 2004 the interest rate was 6.25%; 1% above the Prime Rate. The outstanding balance of the line at December 31, 2004 is \$19,199.

### NOTE G - NOTES AND DEBENTURE PAYABLE

The Company has the following notes and debenture payable at December 31, 2004:

#### 18% Promissory Note

-----

Promissory note payable to an individual due in one payment on February 10, 2005. The note accrues

F-24

## CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE G - NOTES AND DEBENTURE PAYABLE (CONTINUED)

interest at 18.00% which is payable quarterly commencing May 1, 2004. The note is unsecured. At December 31, 2004 the outstanding balance on the note is \$300,000. The Company is currently negotiating new terms with regard to this note.

#### 10% Promissory Note

-----

On June 24, 2004 the Company issued a secured note payable to an employee of a subsidiary of the Company in the amount of \$150,000. The note is secured by the furniture and equipment of a subsidiary of the Company. The note bears interest at 10% per annum and the principal and all interest thereon was due on September 24, 2004. In consideration of extending the maturity date of the note to April 30, 2005 and deferring the payment of all accrued interest for the period June 24, 2004 through April 30, 2005, the individual was issued Warrants to purchase 101,000 shares of the Company's common stock at \$0.28 per share. At December 31, 2004 the outstanding balance on the note is \$150,000.

#### 24% Secured Notes

-----

In July and August 2004, the Company issued \$150,000 of its 24% Secured Notes due April 30, 2005 to the wife of the Chief Executive Officer and an existing 10% subordinated noteholder of the Company. Interest on the notes is payable quarterly in arrears. The notes are secured by (i) all the stock of SRC and USCL, and (ii) the pledge of Patent Nos. 6,060,979, 6,047,173 and 5,701,338 -

## Edgar Filing: CNE GROUP INC - Form 10KSB

all owned by the Company. On October 1, 2004, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$5,867 of interest due on such date to January 1, 2005 in consideration of the Company issuing to them 53,333 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.33 per share. On January 1, 2005, the holders of 100% of the Company's 24% Secured Notes agreed to defer \$9,200 of interest due on such date and further defer the interest that was due and deferred on October 1, 2004 (\$5,867) to April 1, 2005 in consideration of the Company issuing to them 113,000 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.40 per share. At December 31, 2004 the outstanding balance on the notes is \$150,000.

### 10% Convertible Note

-----

In October, November and December 2004, the Company issued (i) \$150,000 of its 10% Convertible Subordinated Notes due June 30, 2005 and (ii) 945,000 Class C Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.50 per share. The notes were sold to the wife of the Chief Executive Officer of the Company and other accredited investors and are convertible by the holder, at any time, into common stock of the Company at \$0.50 per share. The warrants expire on April 30, 2013. Interest on the notes is due at maturity. At December 31, 2004 the outstanding balance on the notes is \$150,000.

F-25

## CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE G - NOTES AND DEBENTURE PAYABLE (CONTINUED)

#### 12% Debenture

-----

In August and September 2003, holders of 95.83333% of \$2,400,000 principal amount of the debentures payable issued by a subsidiary of the Company elected to (i) convert the outstanding principal balance of their debentures amounting to \$2,300,000 into 1,150,000 shares of the Company's Common Stock, (ii) cancel 575,000 of the related 600,000 outstanding B Warrants of the subsidiary of the Company (the related Class A Warrants of the subsidiary of the Company expired on March 31, 2003), and (iii) waive all accrued and unpaid interest relating thereto (\$345,000), in consideration for the issuance of the Company's five-year common stock Class F Warrants to purchase 1,150,000 shares of the Company's Common Stock at \$3.00 per share, all of which are currently exercisable. The subsidiary of the Company also granted the placement agent a warrant exercisable through June 2005 to purchase 5 units at \$60,000 per unit. If the warrant for all 5 units is exercised, the purchaser shall effectively receive 125,000 shares of the Company's common stock and the right to purchase an additional 62,500 common shares at \$5.00 per share - see Note K. At December 31, 2004 the outstanding principal balance of a debenture payable of a subsidiary of the Company is \$100,000.

#### Other Notes

-----

Note payable to Ford Motor Credit due February 16, 2007. The note accrues interest at 5.0% and is payable in monthly installments of principal and



## Edgar Filing: CNE GROUP INC - Form 10KSB

interest of \$1,032. The note is collateralized by a vehicle owned by the Company. At December 31, 2004 the outstanding balance on the note is \$24,723 of which \$12,148 has been classified as current portion of notes payable.

Note payable to Ingersoll-Rand Financial Services due May 1, 2007. The note accrues interest at an effective rate of 7.4% and is payable in monthly installments of principal and interest of \$569. The note is collateralized by equipment owned by the Company. At December 31, 2004 the outstanding balance on the note is \$14,579 of which \$5,905 has been classified as current portion of notes payable.

Installment notes payable to two individuals, who are employees of a subsidiary of the Company, dated April 23, 2003 and due February 1, 2004. The notes accrue interest at 8.00% of which all accrued interest was due and payable on February 1, 2004. Principal payments of \$53,333 were due August 1, 2003, November 1, 2003 and February 1, 2004. The notes are unsecured. At December 31, 2004 the outstanding principal balance of the notes is \$23,330. The Company is currently negotiating new terms with regard to this note.

### NOTE H - SUBORDINATED NOTES PAYABLE

The Company has the following subordinated notes payable at December 31, 2004:

10% Subordinated Notes due April 30, 2005  
-----

On April 23, 2003 the Company issued \$1,000,000 in principal amount of its 10% Subordinated Notes due April 30, 2004 to investors for a 15% non-dilutive interest in the Company in the form of 4,165,800

F-26

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE H - SUBORDINATED NOTES PAYABLE (CONTINUED)

cashless warrants, each to purchase one share of Common Stock at \$0.50 per share. The Company has the option to extend the maturity date of the notes to April 30, 2005 in consideration for issuing the noteholders an additional 4% non-dilutive interest in the Company. The notes also require the Company to prepay them in an amount equal to 100% of any net financing proceeds obtained by the Company after the issuance of the notes. The noteholders waived this provision to the extent of \$2,000,000 through April 15, 2005, of which \$1,500,000 has been raised. The investors included two officers of the Company. Interest is payable, in arrears, calendar quarterly. 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 initial one-year term of the Notes.

On March 12, 2004, the Company notified the Class B Warrant holders that, to satisfy the 15% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an aggregate of 5,245,200 shares of the Company's common stock at approximately \$0.40 per share. On this date, the Company also exercised its option to extend the maturity date of the notes to April 30, 2005 and satisfied the requirement for the additional 4% non-dilutive interest in the Company by issuing to the noteholders Class B Warrants to purchase an additional 1,708,900 shares of the Company's common stock at \$0.50 per share. The

## Edgar Filing: CNE GROUP INC - Form 10KSB

non-dilutive provisions of the Warrants terminate when all of the notes have been paid in full. In April 2005, the Company will notify the Class B Warrant holders that, to satisfy the now 19% non-dilutive provisions of their Warrants, these Warrants were now exercisable for an additional of 1,122,100 shares of the Company's common stock at approximately \$0.40 per share. At December 31, 2004 the 10% subordinated notes had an outstanding principal balance of \$966,710.

### Conversion of 8% Subordinated Notes

-----

On April 23, 2003, the Company issued \$2,000,000 of its 8% subordinated notes due April 30, 2008 to three officers and an employee of the Company. Interest was payable quarterly on a calendar year basis. The notes were secured by the all of the issued and outstanding common stock of SRC and ECI. In 2003 and 2004 all of the 8% subordinated notes were converted into the Company's Series AA Preferred Stock. Specifically, on August 31, 2003, two holders who were officers of the Company, converted \$1,000,000 of the Company's 8% Subordinated Notes into 1,000,000 shares of the Company's Series AA Preferred Stock. On June 9, 2004, the other two holders of the Company's 8% Subordinated Promissory Notes who are an officer and an employee of the Company converted their notes aggregating \$1,000,000 into 1,000,000 shares of the Company's Series AA Preferred Stock. It also has an 8% cumulative dividend, payable in common stock or cash.

Maturities of long-term debt subsequent to December 31, 2004 are as follows:

2005		17,243
2006		19,268
2007		2,791
2008		--
2009		--
		-----
Total		\$ 39,302
		=====

F-27

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE I - PREFERRED STOCK

Preferred Stock consists of the following at December 31, 2004:

Par value per share	\$ 0.00001
Authorized number of shares	25,000,000
Issued and outstanding number of shares:	
Series AA	2,000,000
Series A	1,697,966
Series B	4,400
Series C	9,735,875
Series E	--
	-----
Total	13,438,241
	=====

The Series AA Preferred Stock has an 8% cumulative dividend, payable in common stock or cash, and a liquidating preference over all other CNE equity of \$2,000,000. The Series A Preferred Stock has a liquidating preference over all

## Edgar Filing: CNE GROUP INC - Form 10KSB

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

### NOTE J - COMMON STOCK

Common Stock consists of the following at December 31, 2004:

Par value per share	\$	0.00001
Authorized number of shares		40,000,000
Issued number of shares		12,029,571
Less, Treasury shares		(1,238,656)
		-----
Issued and outstanding number of shares		10,790,915
		=====

F-28

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE K - WARRANTS

At December 31, 2004 outstanding warrants to acquire common stock consisted of:

Type of Warrant	Exercise Date	Expiration Date	Exercise Price	Shares of Common Stock
Class A	October 22, 2008	April 22, 2013	\$1.00	1,697,966
Class B	April 23, 2003	April 30, 2013	\$0.40	5,245,200
Class B	March 12, 2004	April 30, 2013	\$0.50	1,708,900
Class B	July 1, 2004	April 30, 2013	\$0.39	105,769
Class B	October 1, 2004	April 30, 2013	\$0.33	295,455
Class BB	May 10, 2003	May 10, 2006	\$0.50	20,000
Class BB	June 10, 2003	June 10, 2006	\$0.50	20,000
Class BB	July 10, 2003	July 10, 2006	\$0.50	20,000
Class BB	August 10, 2003	August 10, 2006	\$0.50	20,000
Class BB	September 10, 2003	September 10, 2006	\$0.50	20,000
Class BB	October 10, 2003	October 10, 2006	\$0.50	20,000
Class BB	June 10, 2003	June 10, 2006	\$2.50	10,000
Class BB	July 10, 2003	July 10, 2006	\$3.00	10,000
Class BB	August 10, 2003	August 10, 2006	\$4.00	10,000
Class BB	September 10, 2003	September 10, 2006	\$4.50	10,000
Class BB	October 10, 2003	October 10, 2006	\$5.00	10,000
Class BB	January 21, 2004	February 4, 2009	\$0.50	150,000
Class BB	February 10, 2004	February 10, 2014	\$1.00	350,000
Class BB	August 29, 2004	August 29, 2009	\$1.50	25,000
Class BB	August 29, 2004	August 29, 2009	\$2.00	25,000
Class BB	August 29, 2004	August 29, 2009	\$2.50	25,000
Class BB	August 29, 2004	August 29, 2009	\$3.00	25,000
Class BB	August 29, 2004	August 29, 2009	\$3.50	25,000
Class BB	August 29, 2004	August 29, 2009	\$4.00	25,000
Class C	October 22, 2008	April 22, 2013	\$1.00	9,735,875
Class F	January 1, 2004	December 31, 2009	\$3.00	1,150,000

## Edgar Filing: CNE GROUP INC - Form 10KSB

Class G	October 1, 2004	October 1, 2014	\$0.28	736,000
Class H	October 1, 2004	October 1, 2014	\$0.33	53,333
Class I	October, November and December, 2004	June 30, 2014	\$0.50	945,000
Class B(1)	Immediate	March 31, 2005	\$6.00	25,000
Class B(1)	Immediate	June 28, 2005	\$6.00	62,500
				-----
				22,580,998
				=====

(1) Class B warrants and Units of a subsidiary of the Company are exercisable for the Company's common shares (see Note G: Notes and Debenture Payable).

F-29

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE L - CAPITAL CONTRIBUTIONS

##### Capital Contributions

On June 9, 2004 an officer and an employee of the Company waived \$40,000 of interest on certain the outstanding 8% promissory notes (see Note H) and has been reflected in the financial statements as contributions to the capital of the Company during the year ended December 31, 2004.

On January 21, 2004 (retroactive to December 31, 2003) certain officers, directors and stockholder of the Company waived certain amounts due to them as follows:

Compensation and certain reimbursable expenses	\$	66,246
Interest on promissory notes		13,334
Accounts receivable due stockholders		130,000
		-----
Total	\$	209,580
		=====

These aforementioned amounts have been reflected in the financial statements as contributions to the capital of the Company during the year ended December 31, 2003.

#### NOTE M - INCOME TAXES

The provision for income taxes applicable to continuing operations, all of which is current, consists of the following at December 31, 2004 and 2003:

	2004	2003
	-----	-----
Federal	\$ --	\$ --
State and local franchise taxes	--	13,965
	-----	-----
	\$ --	\$13,965
	=====	=====

## Edgar Filing: CNE GROUP INC - Form 10KSB

At December 31, 2004, the Company had a net operating loss carryforward for federal income tax purposes of approximately \$36,500,000, which expires in the years 2005 through 2023.

The Company's deferred tax assets and liabilities consists of the following:

	2004	2003
Deferred tax assets:		
Net operating loss carryforward	\$ 17,838,001	\$ 16,777,000
Other	21,620	23,690
Total deferred tax assets, before valuation allowance	17,859,621	16,800,690
Valuation allowance	(17,859,621)	(16,800,690)
Total deferred tax assets	\$ 0	\$ 0

The valuation allowance increased (decreased) by approximately \$1,058,931 during 2004 and \$2,018,690 during 2003. The increase in the valuation allowance of \$1,058,931 for the year ended December 31, 2004 resulted from the increase in the valuation allowance attributable to the deferred tax benefit of

F-30

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE M - INCOME TAXES (CONTINUED)

approximately \$1,061,001 on the loss from continuing operations. The increase in the valuation allowance of \$2,018,690 for the year ended December 31, 2003 resulted from the increase in the valuation allowance attributable to the deferred tax benefit of approximately \$2,287,161 on the loss from continuing operations and a benefit of \$268,471 recognized from discontinued operations.

The effective tax rate applicable to continuing operations varied from the statutory federal income tax rate as follows:

	Year Ended December 31,	
	2004	2003
Statutory rate	(34)%	(34)%
State and local taxes, net of federal income tax effect	(12)	(12)
Nondeductible expenses	2	2
Valuation allowance	44	44
	-----	-----
Effective rate	0%	0%

## Edgar Filing: CNE GROUP INC - Form 10KSB

The Internal Revenue Service ("IRS") has examined the Company's consolidated federal income tax returns through 1989. The returns for the years 1999 through 2004 remain open.

### Settlement of Tax Assessment Payable of a Subsidiary of the Company

-----

On July 16, 2003, the IRS accepted an "Offer in Compromise" submitted in April, 2003 by a subsidiary of the Company to settle its Tax Assessment Payable amounting to approximately \$946,000, including 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 a gain on settlement in the amount of \$895,622 relating to this transaction during the year ended December 31, 2003.

### NOTE N - COMMITMENTS, LITIGATION AND OTHER MATTERS

[1] The Company's principal executive offices and e-recruiting business are located at 200 West 57th Street, Suite 507, New York, New York 10019 where the Company rents approximately 500 square feet under a lease that will expire on April 30, 2005 pursuant to which the Company pays a monthly base rent of \$3,250. SRC Technologies and its subsidiaries, Connectivity and Mobile Comm are located at 3733 NW 16th Street, Lauderhill, FL 33311, where they rent approximately 5,000 square feet under a lease that expires on March 31, 2006 pursuant to which the Company pays a monthly base rent of \$6,750. This lease is with an affiliate of Thomas L. Sullivan, who is one of the Company's executive officers and Gary L. Eichsteadt, who is a director and an employee of the Company. U.S. Commlink is located at 6244 Preston Avenue, Livermore, CA 94550, where it leases approximately 2,000 square feet under a lease that expires May 31, 2005 pursuant to which the Company pays a monthly base rent of \$1,981.

F-31

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE N - COMMITMENTS, LITIGATION AND OTHER MATTERS (CONTINUED)

Rental expense amounted to \$120,964 and \$115,791 for the years ended December 31, 2004 and 2003, respectively. Minimum future annual rental payments at December 31, 2004 are as follows:

2005	\$ 103,905
2006	20,250
2007	--
	-----
	\$ 124,155
	=====

[2] A subsidiary of the Company is the sponsor a Retirement Savings Plan for its employees pursuant to Section 401(k) of the Internal Revenue Code. Employee contributions to the plan and the subsidiary's matching contributions vest immediately. There were no contributions for the years ended December 31, 2004 and 2003.

## Edgar Filing: CNE GROUP INC - Form 10KSB

- [3] The Company has employment agreements with three executive officers. These agreements provide for minimum salary levels. The aggregate commitment for future salaries of these three executive officers at December 31, 2004 was approximately \$493,000. See Note 5 below.
- [4] The Company is a party to various vendor related litigations. Based on the opinion of legal counsel, the Company has accrued a liability of approximately \$100,000 and, accordingly, this liability has been reflected in accounts payable and accrued expenses.
- [5] On August 19, 2004, two of the Company's then officers, Michael J. Gutowski and Larry M. Reid, who were then also directors, informed the Company that their employment contracts may have been breached. On August 27, 2004, these officers filed suit against the Company in the United States District Court, Southern District of Florida, alleging that (i) their employment contracts had been breached and (ii) certain future compensation relating thereto to be paid to them amounting up to an aggregate of \$1,003,000 had been accelerated. On October 5, 2004, Carol L. Gutowski, then an officer of one of the Company's subsidiaries and a former director of the Company, instituted a suit against the subsidiary in the Circuit Court, 17th Judicial Circuit, Broward County, Florida, alleging (i) a breach of her employment agreement with the subsidiary and (ii) that certain future compensation relating thereto to be paid to her from the subsidiary amounting up to an aggregate of \$274,000 had been accelerated.

The Company reported that it did not believe that it had committed any breach of these agreements and, accordingly, had not incurred the claims that these officers alleged. In addition, the Company reported that it believed that these officers had committed violations of their employment agreements and had taken other actions that had damaged the Company. Accordingly, the Company filed a defense to these actions and asserted appropriate counterclaims.

On January 10, 2005, both of the aforementioned actions were settled. In accordance therewith, the parties agreed, among other things, as follows:

F-32

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE N - COMMITMENTS, LITIGATION AND OTHER MATTERS (CONTINUED)

Each party will release the other from any and all claims except for any obligations set forth in the settlement agreement and the legal actions between the parties, including both the Federal Court and Florida Circuit Court actions, will be dismissed with prejudice;

1. The parties shall bear their own fees and expenses relating to the litigation;
2. Messrs. Reid and Gutowski and Ms. Gutowski shall be released from the non-competition provisions of their respective employment contracts;
3. Messrs. Reid and Gutowski agreed to resign as directors of the Company; and

## Edgar Filing: CNE GROUP INC - Form 10KSB

4. Messrs. Reid and Gutowski and Ms. Gutowski shall exchange, in the aggregate, (i) all of their Class AA (1,000,000 shares), Class A (305,336 shares), and Class C (4,867,937 shares) Preferred Stock of the Company, and (ii) all issued incentive stock options of the Company, aggregating 1,550,000 in the aggregate, for 850,000 shares of our common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005 subject to certain restrictions relating to the sale thereof.

The settlement agreement has been filed with the United States District Court Southern District of Florida, Case No: 04-61125-Civ-Cooke/McAliley, Michael J. Gutowski and Larry M. Reid, Plaintiffs, v. CNE Group, Inc., Defendant/Counter-Plaintiff, v. Michael J. Gutowski, Larry M. Reid and Carol L. Gutowski, Counter-Defendants.

### NOTE O - ACQUISITIONS AND RELATED UNAUDITED PRO FORMA FINANCIAL INFORMATION

The purchase price of the acquisition of SRC and ECI was allocated to the assets and liabilities acquired, both 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. Due to these 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 the Company's consolidated results of operations as if the SRC and ECI acquisitions and the related financing had taken place on January 1, 2003 for the year ended December 31, 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, 2003 or which may result in the future.

F-33

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

### NOTE O - ACQUISITIONS AND RELATED UNAUDITED PRO FORMA FINANCIAL INFORMATION (CONTINUED)

	Year Ended December 31, 2003 ----- Unaudited
Revenues	\$ 2,703,406
Expenses	4,706,100



## Edgar Filing: CNE GROUP INC - Form 10KSB

	-----
Loss from continuing operations	\$ (2,002,694)
	=====
Loss from continuing operations per share:	
Basic	\$ (0.11)
	=====
Diluted	\$ (0.11)
	=====

### NOTE P - STOCK OPTION PLANS

At December 31, 2004, the Company had a stock-based employee compensation plan - the 2003 Stock Incentive Plan. Two of Company's subsidiaries each had separate stock-based employee compensation plans. These subsidiaries' 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 terminated plans rescinded all of their interests.

#### Contractually Terminated Subsidiaries' Plans

##### -----

#### CareerEngine Network 1990 Plan and CareerEngine Network 1999 Plan

##### -----

In 1990, the Company's subsidiary, CareerEngine Network, adopted a stock option plan (the "CareerEngine Network 1990 Plan") for granting options to purchase up to 750,000 shares of its common stock, pursuant to which officers and other key employees were eligible to receive incentive and/or nonqualified stock options, stock appreciation rights, and restricted stock awards. Incentive stock options granted under the CareerEngine Network 1990 Plan were exercisable for a period of up to 10 years (five years in the case of a 10% or greater stockholder) from date of grant at an exercise price which was not less than the quoted market price on date of grant, except that the exercise price of options granted to a stockholder owning more than 10% of the outstanding capital stock may not have been less than 110% of the quoted market price of the common stock at date of grant. The CareerEngine Network 1990 Plan was terminated on June 3, 1999.

In 1999, CareerEngine Network adopted a new stock option plan (the "CareerEngine Network 1999 Plan") for granting options to purchase up to 350,000 shares of its common stock, pursuant to which officers and other key employees, directors, independent contractors and agents were eligible to receive incentive and/or nonqualified stock options. Options granted under the CareerEngine Network 1999 Plan were exercisable for a period of up to 10 years from date of grant at an exercise price which was not less than the quoted market price on date of grant, except that the exercise price of options granted to a stockholder owing more than 10% of the outstanding capital stock may not have been less than 110% of the quoted market price of the common stock at date of grant.

F-34

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE -P STOCK OPTION PLANS (CONTINUED)

Stock option activity under the terminated CareerEngine Network 1990 Plan and the CareerEngine Network 1999 Plan is summarized as follows:

Edgar Filing: CNE GROUP INC - Form 10KSB

	Year Ended December 31,	
	----- 2003 -----	
	Shares	Weighted Average Exercise Price
	-----	-----
Options outstanding at beginning of year	290,000	\$ 2.55
Options cancelled	0	
Rescission by recipients of all their interest in options	(290,000)	2.55
	-----	-----
Options outstanding at end of year	0	2.55
	-----	-----
Options available at end of year	0	\$ 2.55
	=====	=====

CareerEngine 1999 Plan  
-----

In 1999, CareerEngine, Inc., a subsidiary of CareerEngine Network, adopted a stock option plan (the "CareerEngine 1999 Plan") for granting options to purchase up to 2,000,000 shares of its common stock, pursuant to which officers and other key employees were eligible to receive incentive and/or nonqualified stock options. Options granted under the CareerEngine 1999 Plan were exercisable for a period of up to 10 years from date of grant at an exercise price which was not less than the fair value on date of grant, except that the exercise price of options granted to a stockholder owing more than 10% of the outstanding capital stock may not have been less than 110% of the fair value of the common stock at date of grant.

Stock option activity under the terminated CareerEngine 1999 Plan is summarized as follows:

	Year Ended December 31,	
	----- 2003 -----	
	Shares	Weighted Average Exercise Price
	-----	-----
Options outstanding at beginning of year	52,000	\$ 2.50
Options cancelled	0	\$ 2.50
Rescission by recipients of all their interest in options	(52,000)	\$ 2.50
	-----	-----
Options outstanding at end of year	0	\$ 2.50
	=====	=====
Options available at end of year	0	\$ 2.50
	=====	=====

## Edgar Filing: CNE GROUP INC - Form 10KSB

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE -P STOCK OPTION PLANS (CONTINUED)

Current Plan of the Company  
-----

### 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 the Company's 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 3,500,000 to 5,000,000 shares of Common Stock. On June 18, 2004, 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 5,000,000 to 10,000,000 shares of Common Stock. The purpose of the 2003 Stock Incentive Plan, as amended, ("2003 Stock Incentive 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 Stock Incentive Plan was ratified by a majority of the stockholders of the Company on December 18, 2003 and is administered by the Incentive Compensation Committee of the Board.

On April 30, 2003, incentive stock options to purchase 1,987,500 shares of our common stock were granted by the Incentive Compensation Committee 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 our common stock were granted by the Incentive Compensation Committee to three officers of the Company at a weighted average exercise price of \$1.09 per share. On January 21, 2004, incentive stock options to purchase 601,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer and eighteen employees of the Company at a weighted average exercise price of \$0.50 per share. On September 12, 2004 incentive stock options to purchase 500,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer of the Company at an exercise price of \$0.28 per share. On December 1, 2004, incentive stock options to purchase 110,000 shares of our common stock were granted by the Incentive Compensation Committee to fifteen employees of the Company at a weighted average exercise price of \$0.40 per share. On April 30, 2003 (435,000), November 4, 2003 (220,000) and November 21, 2003 (100,000), January 21, 2004 (295,500), September 12, 2004 (900,000) non-qualified stock options to purchase an aggregate 1,950,500 shares of our common stock were granted by the Board of Directors to certain independent contractors and outside directors of the Company. The Company recorded a change of \$135,250 in general and administration expenses for the year ended December 31, 2003. No options granted have been exercised.

On June 10, 2004, as amended pursuant to an Agreement dated as of September 28, 2004, an officer and an employee of the Company entered into an Option Cancellation Agreement pertaining to 420,000 incentive stock options issued on January 21, 2004 relinquishing all rights and title to their award in

## Edgar Filing: CNE GROUP INC - Form 10KSB

consideration of 104 equal weekly cash payments aggregating \$50,000.

F-36

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE -P STOCK OPTION PLANS (CONTINUED)

On January 10, 2005, as part of the settlement of a litigation with the Company, Messrs. Reid (300,000) and Gutowski (775,000) and Ms. Gutowski (475,000) agreed to exchange all of their incentive stock options, as well as all of their Class AA and Class C Preferred Stock for 850,000 shares of the Company's common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005.

Stock option activity under the 2003 Stock Incentive Plan for the year ended December 31, 2004 is summarized as follows:

	Year Ended December 31, 2004		
	Incentive Shares	Non-Qualified Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2003	2,937,500	755,000	\$0.92
Options granted	1,211,000	1,195,500	\$0.37
Options cancelled	(420,000)	--	\$0.50
	-----	-----	
Options outstanding at December 30, 2004	3,728,500	1,950,500	\$0.85
	=====	=====	
Options available at December 30, 2004	4,321,000		\$0.84
	=====		

The following table presents information relating to stock options outstanding at December 31, 2004 relating to the 2003 Incentive Stock Plan:

Options Outstanding			Options Available		
Range of Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Shares	Weighted Average Exercise Price
\$0.15 - \$3.00	5,679,000	\$ .85	7.86	4,321,000	\$ 0.84

CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

NOTE P - STOCK OPTION PLANS (CONTINUED)

Stock option activity under the 2003 Stock Incentive Plan for the year ended December 31, 2003 is summarized as follows:

	Year Ended December 31, 2003		
	Incentive Shares	Non-Qualified Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	0	0	--
Options granted	2,937,500	755,000	\$0.92
Options cancelled	0	0	
Options outstanding at end of year	2,937,500	755,000	\$0.92
Options available at end of year	1,307,500		\$1.17

The following table presents information relating to stock options outstanding at December 31, 2003 relating to the 2003 Incentive Stock Plan:

Options Outstanding			Options Available		
Range of Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Shares	Weighted Average Exercise Price
\$0.15 - \$3.00	3,692,500	\$ 0.92	8.79	1,307,500	\$ 1.17

NOTE Q - DISCONTINUED OPERATIONS

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 \$583,634.

NOTE R - PROJECT FINANCING AGREEMENT

In October 2004, the Company and USCL entered into a two-year Project Financing

## Edgar Filing: CNE GROUP INC - Form 10KSB

Agreement with an institutional lender relating to USCL's anticipated participation in the "Cellular Call Box Upgrade and Maintenance Service" projects for numerous Service Authority for Freeway Emergencies ("SAFE") programs within the state of California. These call box programs operate over 17,000 motorist aid analog call boxes that will require upgrades to digital cellular technology available through USCL. This agreement provides the Company with finished goods and accounts receivable financing of up to \$2,000,000 relating to these potential aforementioned projects. The effective interest rate is approximately 3% per month on the outstanding balance of the amount financed. The finished goods and accounts receivable to be financed, as well as all the other assets of the Company not previously pledged, will secure the borrowings under this agreement.

F-38

### CNE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2004 and 2003

#### NOTE S - SUBSEQUENT EVENTS

- [1] As of January 1, 2005, certain holders of the Company's 10% subordinated notes agreed to defer \$18,750 of interest due on such date and further defer the interest that was due and deferred on July 1, 2004 (\$13,750) and October 1, 2004 (\$18,750) to April 1, 2005 in consideration of the Company issuing to them 384,375 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.40 per share. The noteholders include two officers of the Company.
- [2] On April 1, 2005, the holders of the Company's 10% subordinated notes were asked to agree to defer \$25,000 of interest due on such date and further defer the interest that was due and deferred on July 1, 2004 (\$13,750), October 1, 2004 (\$18,750) and January 1, 2005 (\$187,50) to April 30, 2005 in consideration of the Company issuing to them 254,167 Class B Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.30 per share. The noteholders include two officers of the Company.
- [3] On January 1, 2005, the holders of the Company's 24% Secured Notes agreed to defer \$9,200 of interest due on such date and further defer the interest that was due and deferred on October 1, 2004 (\$5,867) to April 30, 2005 in consideration of the Company issuing to them 113,000 Class H Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.30 per share.
- [4] On April 1, 2005, the holders of the Company's 24% Secured Notes were asked to agree defer \$9,200 of interest due on such date and further defer the interest that was due and deferred on October 1, 2004 (\$5,867) and January 1, 2005 (\$92,00) to April 30, 2005 in consideration of the Company issuing to them 80,222 Class H Warrants of the Company, each to give the holder thereof the right to purchase a share of common stock at \$0.30 per share.
- [5] On or about April 1, 2005, two individuals, both of whom are adult children of the Company's Chief Executive Officer, purchased 545,000 shares of the Company's Series G Preferred Stock at a price of \$0.20 per share. The Series G Preferred Stock is non voting, has no liquidating preference over the common stock and each share is automatically convertible into two shares of common stock when such conversion has been

Edgar Filing: CNE GROUP INC - Form 10KSB

approved by the Company's common stockholders. This transaction was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.

- [6] On or about April 12, 2005, four individuals, three of whom are adult children or related thereto of the Company's Chief Executive Officer, purchased 500,000 shares of the Company's Series G Preferred Stock at a price of \$0.20 per share. This transaction was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.
- [7] On or about March 15, 2005, the Company borrowed \$25,000 from a lender evidenced by a secured convertible subordinated note due on September 15, 2005 and bearing interest at the annual rate of 20% payable at maturity. The note is (i) secured by approximately \$42,000 in one of the Company's bank accounts; (ii) convertible into the Company's common stock at the rate of \$0.24 per share, subject to certain anti-dilution provisions; and (iii) subordinated to the Company's Senior Indebtedness as that term is defined therein. At April 15, 2005 the outstanding principal balance of the note was \$15,000. In addition, on or about April 11, 2005, the Company sold to this lender, for an aggregate purchase price of \$100,000, 333,333 shares of restricted common stock and three-year warrants to purchase an aggregate of 100,000 shares at \$0.50 per share, subject to appropriate anti-dilution provisions. The sale of the restricted stock and warrants was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) thereof.

F-39

Item 8. Changes in and Disagreements with Accountants on

Accounting and Financial Disclosure. On April 6, 2005, we terminated Rosen Seymour Shapss Martin & Company LLP as our independent auditors and appointed Wheeler, Herman, Hopkins & Lagor, P.A.

Item 8A. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer 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 our disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Annual Report on Form 10-KSB 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.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

- (a) Directors and Executive Officers  
-----

## Edgar Filing: CNE GROUP INC - Form 10KSB

Under our By-Laws, the Board of Directors is divided into three classes. Each of the three classes has a term that is staggered by one year from one another. Members of each class are elected to serve for a term of three years and until their successors are elected or until their resignation, removal or ineligibility.

Set forth below are our directors and executive officers, their respective names and ages, positions with us, principal occupations and business experiences during at least the past five years and the dates of the commencement of each individual's term as a director and/or officer.

Name ----	Age ---	Position -----
George W. Benoit	68	Chairman of the Board and Chief Executive Officer
Anthony S. Conigliaro	54	Vice President, Chief Financial Officer and Director
Gary L. Eichsteadt	55	Director
David W. Dube	48	Director
Joseph G. Anastasi	67	Director
Charles W. Currie	61	Director
Thomas L. Sullivan	48	President and Director of ECI

GEORGE W. BENOIT has been our Chief Executive Officer and one of our directors since 1971 and our Chairman of the Board since 1972. He is also Chairman of the Board of Directors of SRC and ECI. His term expires in 2007.

ANTHONY S. CONIGLIARO has been our Vice President and Chief Financial Officer since March 1999 and he became a Director in June 2004. He is also Chief Financial Officer of SRC, Connectivity, ECI and US CommLink. Mr. Conigliaro is a certified public accountant. His term expires in 2005.

GARY L. EICHSTEADT has been a Director since January 14, 2005 when he was also appointed to our Executive

52

Committee. He was the co-founder in 1984 of Econo-Comm, Inc. and from that date through its acquisition by us in April 2003 was its President and sole director. He is currently and since April 2003 has been an employee of Econo-Comm. His term expires in 2005.

DAVID W. DUBE has been one of our directors since June 1996. Mr. Dube is President of Peak Capital Corporation, a corporate finance and management advisory firm, and Peak Securities Corporation, a registered broker-dealer. Mr. Dube was Senior Vice President and Chief Financial Officer of FAB Capital Corp., a merchant banking and securities investment firm, and served in various other capacities with this company from 1997 through October 1999. From 1996 to 1997 he was President and Chief Executive Officer of Optimax Industries, Inc., a company that engaged in the horticultural, decorative giftware and truck parts accessories industries. Mr. Dube serves on the Board of Directors of publicly-traded GlycoGenesys, Inc. and New World Wine Group, Ltd. His term expires in 2007.

JOSEPH G. ANASTASI has been one of our directors of the Company since



## Edgar Filing: CNE GROUP INC - Form 10KSB

September 1986. Since 1960, Mr. Anastasi has been the owner and president of Montgomery Realty Company, Inc., a firm specializing in commercial real estate sales, development consulting and property management. His term expires in 2005.

CHARLES W. CURRIE has been one of our directors since 1986. Mr. Currie is, and has been since October 2002, a partner in First American Fund Services, Inc., a company that provides marketing services to investment managers. Mr. Currie was a partner in Asset Management Services LLC from August 1996 through September 2002. His term expires in 2006.

THOMAS L. SULLIVAN has been the President and a director of ECI since we acquired it in April 2003. He co-founded ECI in 1984 and served as its Vice President from its inception until its acquisition by the Company. Mr. Sullivan has more than 25 years experience in the communications industry.

There are no family relationships among our directors or executive officers.

### (b) Meetings of the Board and its Committees

During 2004, the Board had 15 meetings.

53

Our By-Laws provide for an Executive Committee consisting of the Chairman of the Board and not less than two other Directors to exercise the powers of the Board during the intervals between meetings of the Board. During the period January 1 through June 17, 2004, the Executive Committee, consisted of Messrs. Benoit, Gutowski, Reid and Dube, and it had ten meetings. For the period June 18, 2004 through September 11, 2004, the Executive Committee consisted of Messrs. Benoit, Dube, Anastasi, Gutowski and Reid and it had four meetings. For the period September 12, 2004 through January 14, 2005 the Executive committee consisted of Messrs. Benoit, Anastasi, Dube, Currie, Conigliaro and Anastasi and it had four meetings. On January 15, 2005, Mr. Eichsteadt joined the Executive Committee.

The Board also has an Audit Committee that consists of three outside Directors. This committee discusses audit and financial reporting matters with both our management and our independent public accountants. To ensure independence, our independent public accountants may meet with the Audit Committee with or without the presence of management representatives. During the period January 1 through December 31, 2004, the Audit Committee, consists of Joseph J. Anastasi, Charles W. Currie and David W. Dube, had seven meetings. Each of these committee members is an Independent Director as that term is defined by the American Stock Exchange. In addition, Mr. Dube is a financial expert as defined in Securities and Exchange Commission rules. We believe that each of the Committee members is independent of management and free of any relationship that would interfere with his exercise of independent judgment as a member of this committee.

The principal function of the Audit Committee is to serve as an independent and objective party to assist the Board of Directors in monitoring the integrity of our financial statements, our compliance with legal and regulatory requirements, and the independence and performance of our auditors.

Edgar Filing: CNE GROUP INC - Form 10KSB

The Board also has a Compensation Committee for the purpose of reviewing the compensation of our officers and employees and making recommendations to the Board with respect thereto. During 2004 this Committee consisted of Messrs. Benoit, Gutowski, Reid and Dube and

had no meetings. Messrs. Gutowski, Reid were removed from the Committee on September 11, 2005.

The Board also has a Nominating Committee to propose nominees for election to the Board. During 2004 this Committee, which consisted of Messrs. Benoit, Gutowski, Reid and Dube, had no meetings. Messrs. Gutowski, Reid were removed from the Committee on September 11, 2005. The Nominating Committee will consider suggestions for potential nominees submitted by stockholders if mailed to the Chairman of the Board.

The Board also has an Incentive Compensation Committee for the purpose of administering and making incentive compensation awards under our Incentive Compensation Plans. During 2004 this Committee, which consisted of Messrs. Dube, Anastasi and Currie, had two meetings.

During 2004 each Director attended at least 75% of the aggregate of the total number of Board meetings and meetings of all committees of the Board on which he served.

(c) Compliance with Section 16(a) of the Exchange Act

This information will be included in our definitive proxy statement to be sent to our stockholders for our next annual stockholders meeting and is incorporated herein by reference.

Item 10. Executive Compensation.

(a) Executive Officer Compensation

The following table sets forth all compensation awarded to, earned by or paid to, our Chief Executive Officer and our most highly compensated executive officers. In

2004, annual salaries of such individuals did not exceed \$100,000. The following table represents annual compensation for all services rendered in all capacities to us by individuals earning \$100,000 or more during 2004, 2003 and 2002.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	All Other Compensation
-----	----	-----	-----	-----
George W. Benoit, President,	2004			

## Edgar Filing: CNE GROUP INC - Form 10KSB

Chief Executive Officer and Chairman	2003 2002
Anthony S. Conigliaro, Vice President and Chief Financial Officer	2004 2003 2002

Executive compensation can vary widely from year to year. We may pay discretionary bonuses to its salaried employees. Bonuses are determined by the Compensation Committee of the Board of Directors. There were no bonuses in 2004.

We have three-year employment agreements, commencing April 2003, with each of our executive officers. These agreements provide for annual salaries as follows:

56

Executive Officers	Annual Salary
George W. Benoit	\$ 150,000
Anthony S. Conigliaro	\$ 110,000
Thomas L. Sullivan	\$ 100,000

During 2004, Mr. Benoit was paid no salary and Mr. Conigliaro was paid \$45,846. We have accrued the unpaid salaries.

In 2004, the Company had employment agreements with three former executive officers. These three agreements were terminated in September 2004. Compensation paid to each of these individuals pursuant to these agreements did not exceed \$100,000 during 2004.

(b) Compensation Pursuant to Plans

401(k) Cash or Deferred Compensation Plan. CareerEngine Network, Inc. ("CareerEngine"), one of our subsidiaries, maintains a tax-qualified 401(k) cash or deferred compensation plan that covers all employees who have completed three months of service and attained age 21. Participants are permitted, within the limitations imposed by the Internal Revenue Code, to make pre-tax contributions to the plan pursuant to salary reduction agreements. CareerEngine may, in its discretion on an annual basis, make additional contributions. The contributions of the participants and those of CareerEngine are held in separate accounts. Participants are always fully vested in both accounts.

1990 Incentive Compensation Plan. This Plan was terminated on June 3, 1999. On March 14, 2003 the recipients of all outstanding awards under the Plan waived their rights to such awards.

1999 Stock Option Plan. This Plan was terminated on April 23, 2003. On March 14, 2003 the recipients of all outstanding awards under the Plan waived their rights to such awards.

2003 Stock Incentive Plan. Our Stockholders approved the 2003 Stock Incentive Plan (the "2003 Plan"), which provides, among other matters, for incentive and non-qualified stock options to purchase 10,000,000 shares of our common stock. The purpose of the 2003 Plan is to provide incentives to

officers, key employees,

57

directors, independent contractors and agents whose performance will contribute to our long-term success and growth, to strengthen our ability 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 our 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.

The 2003 Plan permits the granting of both incentive stock options and non-qualified stock options. Generally, the option price of both incentive stock options and non-qualified stock options must be at least equal to 100% of the fair market value of the shares on the date of grant. The maximum term of each option is ten years. For any participant who owns shares possessing more than 10% of the voting rights of the outstanding shares of our common stock, the exercise price of any incentive stock option must be at least equal to 110% of the fair market value of the shares subject to such option on the date of grant and the term of the option may not be longer than five years. Options become exercisable at such time or times as the Board may determine at the time it grants options.

Under the 2003 Plan, incentive stock options may be granted only to officers and employees and non-qualified stock options may be granted to officers, employees as well as directors, independent contractors and agents.

The 2003 Plan may be amended, terminated or modified by the Board at any time, except that the Board may not, without approval by a vote of our stockholders (i) increase the maximum number of shares for which options may be granted under the 2003 Plan, (ii) change the persons eligible to participate in the 2003 Plan, or (iii) materially increase the benefits accruing to participants under the 2003 Plan. No such termination, modification or amendment may affect the rights of an optionee under an outstanding option or the grantee of an award.

On April 30, 2003, incentive stock options to purchase 1,987,500 shares of our common stock were granted by the Incentive Compensation Committee 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

58

950,000 shares of our common stock were granted by the Incentive Compensation Committee to three officers of the Company at a weighted average exercise price of \$1.09 per share. On January 21, 2004, incentive stock options to purchase 601,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer and eighteen employees of the Company at a weighted average exercise price of \$0.50 per share. On September 12, 2004 incentive stock options to purchase 500,000 shares of our common stock were granted by the Incentive Compensation Committee to one officer of the Company at an exercise price of \$0.28 per share. On December 1, 2004, incentive stock options to purchase 110,000

Edgar Filing: CNE GROUP INC - Form 10KSB

shares of our common stock were granted by the Incentive Compensation Committee to fifteen employees of the Company at a weighted average exercise price of \$0.40 per share. On April 30, 2003 (435,000), November 4, 2003 (220,000) and November 21, 2003 (100,000), January 21, 2004 (295,500), September 12, 2004 (900,000) non-qualified stock options to purchase an aggregate 1,950,500 shares of our common stock were granted by the Board of Directors to certain independent contractors and outside directors of the Company. No options granted have been exercised.

On June 10, 2004, as amended pursuant to an Agreement dated as of September 28, 2004, an officer and an employee of the Company entered into an Option Cancellation Agreement pertaining to 420,000 incentive stock options issued on January 21, 2004 relinquishing all rights and title to their award in consideration of 104 equal weekly cash payments aggregating \$50,000.

On January 10, 2005, as part of the settlement of a litigation with us, Messrs. Reid (300,000) and Gutowski (775,000) and Ms. Gutowski (475,000) agreed to exchange all of their incentive stock options, as well as all of their Class AA and Class C Preferred Stock as follows: for 850,000 shares of our common stock if the exchange is made on or prior to May 9, 2005, 950,000 shares if the exchange is made on or prior to June 9, 2005, or 1,050,000 shares if the exchange is made on or prior to July 9, 2005.

(c) Director Compensation  
-----

Until October 1, 2003, we did not pay directors who were also our employees any fees for serving as directors, but reimbursed them for their out-of-pocket expenses in connection with such duties. Effective October 1, 2003,

we agreed to pay directors who are not also our employees a monthly retainer of \$1,000, plus expenses incurred for attending meetings of the Board, Annual Stockholders Meetings, and for each meeting of a committee of the Board not held in conjunction with a Board meeting. In addition, effective October 1, 2003, any Director who is also a member of the Executive Committee will be paid an additional monthly retainer of \$1,000. Accrued Director compensation, in the aggregate, amounted to \$58,000 in 2004.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, at April 1, 2005, the shares of our common stock owned beneficially; by each of our current directors; by all of our current directors and executive officers as a group; and by persons known to us to own, beneficially, more than five percent of the outstanding shares of our common stock:

Name of	Common Stock Beneficially	Percent Voting Outstanding
---------	------------------------------	----------------------------------

## Edgar Filing: CNE GROUP INC - Form 10KSB

Beneficial Owner(1) -----	Owned(2) -----
Grace C. Lindblom (13)	3,406,883
George W. Benoit (4) (7) (9) (10) (14) (15)	2,229,120
Maureen Benoit (9) (14)	3,057,903
Frank Ciolli (21)	1,542,833
G. Martin Fell	590,833
Barry W. Blank (8)	2,569,795
Michael J. Gutowski and Carol A. Gutowski (16) (19)	775,000
Kevin J. Benoit(5) (7) (10) (12)	681,577
Anthony S. Conigliaro (12) (17)	1,316,277
Gary L. Eichsteadt (24)	218,500
Charles W. Currie (6)	504,280
David W. Dube (18)	104,000
Joseph G. Anastasi (22)	234,700
Thomas L. Sullivan (20)	117,500
All Directors and Executive Officers as a group (7 persons)	7,782,280

\* Owns less than one (1%) percent.

(1) The address of all the beneficial owners except Mr. Blank, Ms. Lindblom, Mr. Gutowski, Mr. Ciolli and Mr. Fell, is CNE Group, Inc., Inc., Suite 507, 200 West 57th Street, New York, New York 10019. Mr. Blank's address is P.O. Box 32056, Phoenix, Arizona 85064, Ms. Lindblom's address is 1412 W. Colonial Drive,

61

Orlando, FL 32804, Mr. Gutowski's address is 1271 SE 9th Avenue, Pompano Beach, FL 33060, Mr. Ciolli's address is 7 Jessup Lane, Westhampton Beach, NY 11978, and Mr. Fell's address is 150 East 58th Street, 23rd Floor, New York, NY 10155.

(2) A person is deemed to be a beneficial owner of securities that can be acquired by such person within 60 days from the filing of this Form 10-KSB upon the exercise of options and warrants or conversion of convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and convertible securities that are held by such person (but not held by any other person) and that are exercisable or convertible within 60 days from the filing of this Form 10-KSB have been exercised or converted. Except as otherwise indicated, and subject to applicable community property and similar laws, to our knowledge each of the persons named has sole voting and investment power with respect to the

## Edgar Filing: CNE GROUP INC - Form 10KSB

shares shown as beneficially owned.

- (3) All percentages of beneficial ownership are calculated based the number of shares outstanding as of April 8, 2005. On such date we had 10,790,915 shares of common stock issued and outstanding.
- (4) Ownership and percentage numbers include 90,700 shares of common stock held in Mr. Benoit's 401K Plan.
- (5) Ownership and percentage numbers include (a) 31,000 shares of common stock held in the Kevin J. Benoit 1998 Family Trust, of which Mr. Benoit is the Trustee; and (b) 35,300 shares of common stock held in Mr. Benoit's Individual Retirement Account.
- (6) Ownership and percentage numbers include (a) 200 shares of common stock owned by Mr. Currie's wife, (b) 9,900 shares of common stock held in Mr. Currie's Individual Retirement Account, (c) 25,000 shares of common stock that Mr. Currie can acquire by exercising non-qualified stock options issued pursuant to our 2003 Stock Incentive Plan; and (d) 207,500 shares of common stock that he can acquire by exercising warrants issued in conjunction with his purchase of our 10% Convertible Notes.
- (7) Ownership and percentage numbers include 50,000 shares of common stock that each of these individuals can acquire by exercising warrants.
- (8) Ownership and percentage numbers include (i) 150,000 shares of common stock that Mr. Blank can acquire by exercising warrants of the Company and (ii) 1,885,695 shares of common stock that Mr. Blank can acquire by exercising warrants issued to him in conjunction with his purchase of our 10% Promissory Notes.
- (9) George W. Benoit and Maureen Benoit are husband and wife.
- (10) George W. Benoit is the father of Kevin J. Benoit.
- (11) not used
- (12) Ownership and percentage numbers include 514,277 shares of common stock that Mr. Conigliaro and Mr. K. Benoit can each acquire by exercising warrants issued to them in conjunction with their purchase of our 10% Promissory Notes.
- (13) Ownership and percentage numbers include 2,081,550 shares of common stock that Ms. Lindblom can acquire by exercising

62

warrants issued to her in conjunction with her purchase of our 10% Promissory Notes.

- (14) Ownership and percentage numbers consist of (i) 2,571,388 shares of common stock that Mrs. Benoit can acquire by exercising warrants issued in conjunction with her purchase of our 10% Promissory Notes and (ii) 207,500 shares of common stock that she can acquire by exercising warrants issued in conjunction with her purchase of our 10% Convertible Notes, and (iii) 279,015 shares of common stock that she can acquire by exercising warrants issued in conjunction with her purchase of our 24% Secured Notes. George Benoit disclaims beneficial ownership of these securities.

## Edgar Filing: CNE GROUP INC - Form 10KSB

- (15) Ownership and percentage numbers include 600,000 shares of common stock that Mr. Benoit can acquire by exercising incentive stock options issued pursuant to our 2003 Stock Incentive Plan.
- (16) Ownership and percentage numbers consist of 775,000 shares of common stock that Mr. Gutowski can acquire by exercising incentive stock options issued to him pursuant to our 2003 Stock Incentive Plan. Michael Gutowski and Carol Gutowski are husband and wife.
- (17) Ownership and percentage numbers include 800,000 shares of common stock that Mr. Conigliaro can acquire by exercising incentive stock options issued to him pursuant to our 2003 Stock Incentive Plan.
- (18) Ownership and percentage numbers include 100,000 shares of common stock that Mr. Dube can acquire by exercising non-qualified stock options issued pursuant to our 2003 Stock Incentive Plan.
- (19) Ownership and percentage numbers consist of 475,000 shares of common stock that Mrs. Gutowski can acquire by exercising incentive stock options issued to her pursuant to our 2003 Stock Incentive Plan.
- (20) Ownership and percentage numbers include 117,500 shares of common stock that Mr. Sullivan can acquire by exercising.
- (21) Ownership and percentage numbers consist of 1,542,833 shares of common stock that Mr. Ciolli can acquire by exercising of warrants issued in conjunction with his purchase of our 10% Promissory Notes.
- (22) Ownership and percentage numbers include (i) 25,000 shares of common stock that Mr. Anastasi can acquire by exercising non-qualified stock options issued pursuant to our 2003 Stock Incentive Plan and (ii) 207,500 shares of common stock that he can acquire by exercising warrants issued in conjunction with his purchase of our 10% Convertible Notes.
- (23) Ownership and percentage numbers consist of (i) 462,849 shares of common stock that Mr. Fell can acquire by exercising warrants issued in conjunction with his purchase of our 10% Promissory Notes and (ii) 127,984 shares of common stock that he can acquire by exercising warrants issued in conjunction with his purchase of our 24% Secured Notes.
- (24) Ownership and percentage numbers include 218,500 shares of common stock that Mr. Eichsteadt can acquire by exercising.

63

### Item 12. Certain Relationships and Related Transactions.

On April 23, 2003 we acquired SRC and ECI. These acquisitions, which involved certain of our current officers, directors and employees, are discussed under the heading "Item 6: Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisition of all of the outstanding stock of SRC and ECI" above.

On January 21, 2004, George Benoit waived certain compensation and reimbursable expenses due him from the Company amounting to \$66,246 at December 31, 2003.

Maureen Benoit, George Benoit's wife, purchased \$600,000 of the Company's 10% Subordinated Notes due April 30, 2004 (extended to April 30, 2005 on March 12, 2004) (the "10% Notes") and related 2,499,480 common stock



## Edgar Filing: CNE GROUP INC - Form 10KSB

warrants on April 23, 2003. On October 14, 2003, Mrs. Benoit sold \$150,000 in principal amount of the 10% Notes and 624,870 related warrants to Frank Ciolli for her cost. On March 2, 2004, Mrs. Benoit sold \$200,000 in principal amount of the 10% Notes and 833,160 related warrants to Barry W. Blank for her cost. Mrs. Benoit currently owns \$250,000 in principal amount of the 10% Notes and 1,738,525 related warrants, including 697,075 warrants issued to her due to certain non-dilutive and loan extension provisions of her 10% Notes.

Mr. Conigliaro currently owns \$50,000 of the 10% Notes and related common stock warrants (208,290, which was increased to 347,705 due to certain non-dilutive and loan extension provisions of the notes) which he purchased on April 23, 2003.

Mr. and Mrs. Gutowski currently own, in the aggregate, (i) 100% of our Series AA Preferred Stock amounting to 1,000,000 shares, and (ii) 50% of our Series C Preferred Stock amounting to 4,867,937 shares and related common stock warrants (4,867,937) which they acquired in 2003. On August 31, 2003, they converted the Company's 8% Subordinated Notes due April 30, 2008 (the "8% Notes") then owned by them in the principal amount of \$1,000,000 into 1,000,000 shares of our Series AA Preferred Stock. On January 21, 2004, Mr. and Mrs. Gutowski waived interest due them of \$13,334 relating to the period of time they held the 8% Notes. On January 10, 2005, as part of the a litigation settlement with Mr. and Mrs.

64

Gutowski, they agreed to exchange all of their Class AA, Class AA and Class C Preferred Stock, and all of their incentive stock options for shares of our common stock if the exchange is made on or prior to July 9, 2005.

Messrs. Sullivan and Eichsteadt, in the aggregate, currently own (i) 50% our Series AA Preferred Stock amounting to \$1,000,000, (ii) 50% of our Series C Preferred Stock amounting to 4,867,938 shares and related common stock warrants (4,867,938), and (iii) certain 8% installment notes amounting to \$65,076, all of which they acquired during 2003. On January 21, 2004, Messrs. Sullivan and Eichsteadt waived \$130,000 of certain accounts receivable due them from the Company.

We have employment agreements with our executive officers and have granted stock options and warrants to purchase common stock to our officers and directors. These employment agreements and grants are discussed under the headings "Item 10: Executive Compensation" and "Item 11: Security Ownership of Certain Beneficial Owners and Management" above.

On May 1, 2003, our subsidiary, SRC, entered into a two-year lease with T&G 16th Street Property, relating to its office and manufacturing premises located in Lauderhill, FL, at a monthly rental of \$5,830. The lease contains one, one-year renewal option at the current annual rental rate. SRC's primary obligations pursuant to the lease agreement are the payment of rent and its incurred utility costs. Messrs. Sullivan and Eichsteadt are the principals of T&G 16th Street Property. Commencing December 1, 2004 this lease agreement was amended to provide for a monthly base rent of \$6,750 through the expiration date of the lease.

There are no material proceedings to which any of our officers, directors or affiliates, or any associates thereof is a party adverse to our interests or do any of these individuals have a material interest adverse to the Company.

## Edgar Filing: CNE GROUP INC - Form 10KSB

### Item 13. Exhibits, List and Reports on Form 8-K.

#### (a) Exhibits

-----

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to other reports or registration statements filed by the

65

Registrant under the Securities Act of 1933 or under the Securities Exchange Act of 1934 and are hereby incorporated by reference.

- 2.1 Agreement and Plan of Merger among CNE Group, Inc., CNE General Acquisition, Inc. (a wholly-owned subsidiary of CNE Group, Inc.) and CareerEngine Network, Inc., dated as of April 7, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 2.2 Agreement and Plan of Reorganization of CNE Group, Inc., CNE Acquisition Corp. I (a wholly-owned subsidiary of CNE Group, Inc.), SRC Technologies, Inc. and others, dated April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 2.3 Agreement and Plan of Reorganization among CNE Group, Inc., CNE Acquisition Corp. II (a wholly-owned subsidiary of CNE Group, Inc.), Econo-Comm, Inc. D/B/A Mobile Communications and the Stockholders of Econo-Comm, Inc. dated as of April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 3.1 Certificate of Incorporation of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 3.2 Certificate of Amendment of the Certificate of Incorporation of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 3.3 Amended and Restated By-Laws of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 3.4 Amendment to Amended and Restated By-Laws of CNE Group, Inc. adopted on March 18, 2004
- 4.1 Certificate of Designations of CNE Group, Inc., Series A Preferred Stock adopted pursuant to Section 151(g) of the Delaware General Corporation Law (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).

66

- 4.2 Certificate of Designations of CNE Group, Inc., Series B Preferred Stock adopted pursuant to Section 151(g) of the Delaware General

## Edgar Filing: CNE GROUP INC - Form 10KSB

Corporation Law (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).

- 4.3 Certificate of Designations of CNE Group, Inc., Series C Preferred Stock adopted pursuant to Section 151(g) of the Delaware General Corporation Law (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.4 Certificate of Designations of CNE Group, Inc., Series E Preferred Stock adopted pursuant to Section 151(g) of the Delaware General Corporation Law (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.5 Form of Class A Warrants to Purchase Common Stock of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.6 Form of Class B Warrants to Purchase Common Stock of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.7 Form of Class C Warrants to Purchase Common Stock of CNE Group, Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.8 Form of CNE Group, Inc. 10% Subordinated Note (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.9 Form of 8% Subordinated Note issued by CNE Group, Inc. to Gary L. Eichsteadt, to purchase all right, title and interest in Patent No. 6,060,979, dated April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 4.10 Certificate of Designations of CNE Group, Inc., Series AA Preferred Stock adopted pursuant to

67

Section 151(g) of the Delaware General Corporation Law.

- 10.1 Asset Purchase Agreement between CNE Group, Inc. and Gary L. Eichsteadt, dated April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.2 Assignment of patent by Gary L. Eichsteadt to CNE Group, Inc., dated April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.3 Pledge Agreement made by CNE Group, Inc. and Gary L. Eichsteadt, dated April 23, 2003 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.4 Employment Agreement between CNE Group, Inc. and George W. Benoit (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.5 Employment Agreement between CNE Group, Inc. and Anthony S. Conigliaro (Incorporated by reference to the Registrant's Current

## Edgar Filing: CNE GROUP INC - Form 10KSB

Report on Form 8-K filed on May 6, 2003).

- 10.6 Employment Agreement between Connectivity, Inc. and Carol Gutowski (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.7 Employment Agreement between Econo-Comm, Inc. and Gary L. Eichsteadt (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.8 Employment Agreement between CNE Group, Inc. and Larry M. Reid (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.9 Employment Agreement between CNE Group, Inc. and Michael J. Gutowski (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 6, 2003).
- 10.10 Employment Agreement between Econo-Comm, Inc. and Thomas L. Sullivan (Incorporated by reference to

68

the Registrant's Current Report on Form 8-K filed on May 6, 2003).

### 21.0 Subsidiaries of the Registrant.

U.S. Commlink, Ltd. (California), SRC Technologies, Inc. (Florida) and CareerEngine Network, Inc. (Delaware). SRC's subsidiaries are Connectivity, Inc. (Florida) and Econo-Comm, Inc. (Florida). CareerEngine Network, Inc.'s subsidiaries are CareerEngine, Inc. (New York) Helmstar Funding, Inc. (Pennsylvania), Burrows, Hayes Company, Inc (New York), Shaw Realty Company, Inc. (New York), Helmstar Funding, Inc. (New York), Dover, Sussex Company, Inc. (New York), Housing Capital Corporation (New York), Randel, Palmer & Co., Inc. (New York), Parker, Reld & Co., Inc. (New York), McAdam, Taylor & Co., Inc. (New York) and Ryan, Jones & Co., Inc. (New York). CareerEngine, Inc.'s wholly-owned subsidiaries are Advanced Digital Networks, Inc. (New York) and A.E. Lander Corp. (New York).

- 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
- (b) During the last quarter of the period covered by this report the Company filed no reports on Form 8K

69

Edgar Filing: CNE GROUP INC - Form 10KSB

(1) Audit Fees

The aggregate fees billed for professional services rendered by our independent auditors for the audit of our annual financial statements and review of our financial statements included in our quarterly reports or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements were \$172,600 for the fiscal year ended December 31, 2004 and \$125,261 for the fiscal year ended December 31, 2003.

(2) Audit-Related Fees

During our last two fiscal years our independent auditors did not perform any assurance and related services that were reasonably related to the performance or review of our financial statements for which we were billed except as may have been included in the fees set forth in Paragraph (1) above.

(3) Tax Fees

Our independent auditors did not provide us with any tax compliance, tax advice or tax planning services during our last two fiscal years and, accordingly, did not bill us for such services during these years.

(4) All Other Fees

During our last two fiscal years our independent auditors did not provide us with any products and did not provide us with or bill us any fees for services other than those set forth in Paragraph (1) above.

70

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of April, 2005.

CNE Group, Inc.

/s/ George W. Benoit

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

/s/ Anthony S. Conigliaro

-----  
Anthony S. Conigliaro, Vice President  
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 15th day of April, 2005.

Signature Title  
-----

Edgar Filing: CNE GROUP INC - Form 10KSB

/s/ George W. Benoit  
-----  
(George W. Benoit) Chairman of the Board,  
President,  
Chief Executive Officer

/s/ Joseph G. Anastasi  
-----  
(Joseph G. Anastasi) Director

/s/ Charles W. Currie  
-----  
(Charles W. Currie) Director

/s/ David W. Dube  
-----  
(David W. Dube) Director

/s/ Anthony S. Conigliaro  
-----  
(Anthony S. Conigliaro) Director

71

-----  
(Gary L. Eichsteadt) Director