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CAREERENGINE NETWORK INC  
Form 10QSB  
May 20, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

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

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

Commission file number 1-9224

CNE GROUP, INC.

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

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

212-977-2200  
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

| Class<br>-----                    | Outstanding at April 30, 2003<br>----- |
|-----------------------------------|--|
| Common stock - par value \$.00001 | 5,590,944 shares                       |

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

The results of operations for the three-months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

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

|  | March 31,<br>2003 | Decem<br>2 |
|--|-------------------|------------|
|  | -----             | -----      |
|  | (Unaudited)       |            |
| <b>ASSETS</b>  |                   |            |
| Current:   |                   |            |
| Cash and cash equivalents  | \$ 96,747         | \$         |
| Accounts receivable, net   | 28,447            |            |
| Insurance claims receivable  |                   |            |
|  | -----             | -----      |
| Total current assets   | 125,194           |            |
| Fixed assets, net  | 22,167            |            |
|  | -----             | -----      |
| Total assets   | \$ 147,361        | \$3        |
|  | =====             | =====      |
| <b>LIABILITIES</b>   |                   |            |
| Current:   |                   |            |
| Accounts payable and accrued expenses  | \$ 379,141        | \$         |
| Interest payable   | 288,000           |            |
| Tax assessment payable   | 929,403           |            |
| Debentures payable   | 2,400,000         | 2,         |
|  | -----             | -----      |
| Total current liabilities  | 3,996,544         | 3,         |
| Deferred grant revenue   | 291,827           |            |
|  | -----             | -----      |
| Total liabilities  | 4,288,371         | 4,         |
|  | -----             | -----      |
| Commitments and contingencies  |                   |            |
| <b>CAPITAL (DEFICIT)</b>   |                   |            |
| Preferred stock - authorized 1,000,000 shares, par value \$0.10;<br>none issued                                |                   |            |
| Common stock - authorized 20,000,000 shares, par value \$0.10;<br>6,829,600 shares issued as of March 31, 2003 |                   |            |

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|  |              |       |
|--|--------------|-------|
| and December 31, 2002                              | 682,960      |       |
| Paid-in surplus                                    | 16,290,691   | 16,   |
| Accumulated deficit                                | (18,241,561) | (17,  |
|  | -----        | ----- |
|  | (1,267,910)  | (1,   |
| Less treasury stock, at cost -<br>1,238,656 shares | (2,873,100)  | (2,   |
|  | -----        | ----- |
| Total deficit                                      | (4,141,010)  | (3,   |
|  | -----        | ----- |
| Total liabilities and deficit                      | \$ 147,361   | \$    |
|  | =====        | ===== |

See Notes to Consolidated Financial Statements

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CNE Group, Inc. and Subsidiaries  
Consolidated Statements of Operations

|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2003                            | 2002        |
|  | -----                           | -----       |
|  | (Unaudited)                     | (Unaudited) |
| Revenues:  |                                 |             |
| Service fee income                                       | \$ 45,039                       | \$ 74,688   |
| Interest income  | 282                             | 404         |
|  | -----                           | -----       |
|  | 45,321                          | 75,092      |
|  | -----                           | -----       |
| Costs and expenses:                                      |                                 |             |
| Compensation and related costs                           | 90,231                          | 187,787     |
| Advertising  |                                 | 10,000      |
| General and administrative                               | 110,071                         | 171,475     |
| Interest   | 87,942                          | 94,157      |
|  | -----                           | -----       |
|  | 288,244                         | 463,419     |
|  | -----                           | -----       |
| Loss from continuing operations before items shown below | (242,923)                       | (388,327)   |
| Gain on fixed assets destroyed in catastrophe            |                                 | 132,047     |
| Reversal of Director fees accrual                        |                                 | 55,000      |
|  | -----                           | -----       |
| Loss from continuing operations before income taxes      | (242,923)                       | (201,280)   |
| Income tax provision                                     |                                 | 5,250       |
|  | -----                           | -----       |
| Loss from continuing operations                          | (242,923)                       | (206,530)   |

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|  |              |              |
|--|--------------|--------------|
| Discontinued operations:   |              |              |
| Income from discontinued operations                                      |              | 3,712,884    |
|  | -----        | -----        |
| Net (loss) income  | \$ (242,923) | \$ 3,506,354 |
|  | =====        | =====        |
| Per common share - basic and diluted:                                    |              |              |
| Loss from continuing operations  | \$ (.04)     | \$ (.04)     |
| Income (loss) from discontinued operations                               | --           | .67          |
|  | -----        | -----        |
| Net (loss) income per common share                                       | \$ (.04)     | \$ .63       |
|  | =====        | =====        |
| Weighted average number of common shares outstanding - basic and diluted |              |              |
|  | 5,590,944    | 5,570,944    |
|  | =====        | =====        |

See Notes to Consolidated Financial Statements

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

|  | Three Months Ended |
|--|--------------------|
|  | March 31,          |
|  | -----              |
|  | 2003               |
|  | -----              |
|  | (Unaudited)        |
| Cash flows from operating activities:  |                    |
| Loss from continuing operations  | \$ (242,923)       |
| Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities: |                    |
| Depreciation and amortization  | 11,083             |
| Issuance of common stock for services  |                    |
| Amortization of debt discount  |                    |
| Reversal of fees due to Directors  |                    |
| Gain on fixed assets destroyed in catastrophe  |                    |
| Changes in:  |                    |
| Accounts and insurance claims receivable   | 70,609             |
| Other assets   |                    |
| Accrued expenses and other liabilities   | 74,778             |
|  | -----              |
| Cash (used in) continuing operations   | (86,453)           |
| Cash provided by discontinued operations   |                    |
|  | -----              |
| Net cash (used in) operating activities  | (86,453)           |
|  | -----              |
| Decrease in cash and cash equivalents  | (86,453)           |
| Cash and cash equivalents at beginning of period   | 183,200            |
|  | -----              |

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Cash and cash equivalents at end of period \$ 96,747  
=====

Supplemental disclosures of cash flow information related to continuing operations:

Cash paid during the period for:

|              |    |    |
|--------------|----|----|
| Interest     | \$ | -- |
| Income taxes | \$ | -- |

See Notes to Consolidated Financial Statements

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

1. General

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 when the Company acquired all of the assets of CareerEngine, all former stockholders of CareerEngine became the stockholders of the Company, which is the entity that is now publicly traded on the American and Pacific Stock Exchanges under the symbol "CNE," and the officers and directors of CareerEngine became the officers and directors of the Company.

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 have been issued without registration in reliance upon exemptions provided in Section 3(a)(9) of the Securities Act of 1933 and Rule 145 promulgated thereunder. CareerEngine has been subject to the reporting requirements of the Exchange Act since 1986.

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

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. The catastrophe of September 11, 2001 involved no injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed.

Since the attack, the Company's management has been preoccupied with the relocation and reestablishment of its businesses, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and seeking sources of financing. In 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, has recorded a \$152,934 gain on assets destroyed due to this catastrophe of which \$132,047 was recorded in

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the three months ended March 31, 2002.

The Company also had insurance coverage for other than assets destroyed. As of March 31, 2003 all outstanding insurance claims relating to the catastrophe have been received.

In addition, the Company had applied for governmental assistance grants related to the catastrophe. In April and September 2002, the Company received grants aggregating \$291,827. The grants have a restriction that could require their repayment, specifically if the Company were to relocate a substantial portion its operations outside of New York City before May 1, 2005. Until such time as this restriction shall no longer apply, the grants will be classified as a liability of the Company.

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Upon the satisfaction or lapse of the restrictions, the Company will remove the liability and record grant income on its financial statements or, alternatively, have to repay such grants if the above condition is not satisfied.

E-recruiting activities are derived from the operations of the two divisions of our wholly-owned subsidiary, CareerEngine, Inc. These divisions, CareerEngine Network and CareerEngine Solutions, provide on- and off-line companies with products and services addressed to meeting on-line recruiting problems.

### 2. Significant Accounting Policies

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

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

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows, has a working capital deficit and at March 31, 2003 has a capital deficiency. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. However, there is no assurance that the Company will achieve profitable operations or cash flow.

Management believes that such working capital deficit, losses and negative operating cash flows will be positively addressed by the subsequent events disclosed within these financial statements as of March 31, 2003 and 2002 and the three month periods then ended.

#### Revenue Recognition

E-recruiting fees are earned on the placement of job placement and

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

### Income (Loss) Per Share

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

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### Stock-Based Compensation

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

At March 31, 2003, the Company and one of its subsidiaries each had one stock-based employee compensation plan. On March 14, 2003 all recipients of options granted to them under these plans rescinded their interests. As permitted under SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure, which amended SFAS No. 123, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by APB No. 25 and related interpretations including FIN No. 44. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for options granted under its plan.

Three Months En  
March 31,

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2003  
----

|   |              |              |
|---|--------------|--------------|
| Net (loss) income, as reported  | \$ (242,923) | \$3,         |
| Less, Total stock-based employee compensation expense<br>determined under fair value-based method for all awards,<br>net of related tax effects | 0            | ----         |
| Proforma net (loss) income  | \$ (242,923) | \$3,<br>==== |
| Net (loss) income per share:  |              |              |
| Basic and diluted - as reported -   | \$ (0.04)    | \$<br>====   |
| Basic and diluted - Proformad   | \$ (0.04)    | \$<br>====   |

The Company did not grant fixed stock options to acquire shares of its common stock to its employees during the three-months ended March 31, 2003 and 2002.

3. Discontinued Operations

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

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

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

On January 31, 2002 title to the six theaters was transferred to the banks in payment of the non-recourse debt under the Reimbursement Agreement and the Company recognized a gain of \$3,512,884, representing the excess of the liabilities over the carrying value of the assets relating to the real



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estate leased to Carmike. In addition, the Company received \$294,755 in connection with the sale of its common membership interest in Movieplex relating to the transfer of title of the movie theaters to Wachovia.

Income from discontinued operations for the three-month period ended March 31, 2002 is as follows:

|   | Three Months<br>Ended<br>March 31, 2002<br>----- |
|---|--|
| Revenues:                               |  |
| Rental income                           | \$1,249,710                                      |
| Gain on real estate leased              | 3,512,884  |
| Common membership interest transfer fee | 294,755  |
|   | -----  |
|   | 5,057,349  |
|   | -----  |
| Expenses                                |  |
| Interest                                | 1,249,710  |
| Other                                   | 94,755   |
|   | -----  |
|   | 1,344,465  |
|   | -----  |
|   | \$3,712,884                                      |
|   | =====  |

#### 4. Litigation

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

#### 5. Debentures Payable

In 2000, the Company privately placed 48 units of its securities. Each unit consisted of a \$50,000 subordinated convertible debenture, 12,500 Class A Common Stock Warrants and 12,500 Class B Common Stock Warrants. Each \$50,000 debenture is convertible into 25,000 shares of common stock. The Class A and B Warrants are exercisable at \$4 and \$6, respectively. The debentures bear interest at 12%, payable quarterly, commencing October 1, 2000 and mature March 31, 2010. The Class A and B Warrants are exercisable at any time until March 31, 2003 and March 31, 2005, respectively. In the private placement, officers, stockholders and directors of the Company acquired 10.5 units for \$525,000.

The aggregate number of shares issuable upon the exercise of all the warrants and the conversion of all the debentures is 2,400,000.

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

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

Interest accrued on debentures payable, relating to the period from April 1, 2002 through March 31 2003, aggregating \$288,000 has not been paid through April 1, 2003. Accordingly, since the Company had not paid the interest due on April 1, 2002 by April 16, 2002 (the "grace period"), the Company's obligation is considered callable by the debenture holders and as a consequence the entire balance of the debentures with the related unpaid interest is classified as a current obligation at March 31, 2003. However, for the debentures to be in default, the holders of no less than 51% in principal amount of the debentures must notify the Company that an event of default has occurred and may thereafter declare all debentures and related interest immediately due and payable. As of May 19, 2003, no such demand has been made by any debenture holder.

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

### 6. Income Taxes

Commencing in August 2000, pursuant to an understanding with the IRS, the Company began paying \$30,000 per month until the assessed tax deficiency relating to the years 1985 through 1989 and interest thereon is fully satisfied. However, after a technical review by special tax counsel of the tax deficiency and related interest, management of the Company believes that there may be a basis for its reduction. Management is actively pursuing such a reduction at this time. Pending the ultimate resolution of this matter with the IRS, in September 2001 the Company temporarily suspended making monthly payments. At March 31, 2003, the outstanding balance of the liability amounted to approximately \$929,000 including related additional state and local taxes and interest.

### 7. Director Fees

At March 31, 2003, the Company's five outside directors have similarly agreed to forego previously accrued and unpaid directors' fees earned through December 31, 2001 and agreed to forgo future compensation until further notice. The reversal of previously accrued fees has been reflected in the Company's Consolidated Statement of Operations for the three-month period ended March 31, 2002.

### 8. Subsequent Events

#### Acquisitions

On April 23, 2003, the Company acquired all of the outstanding stock of SRC Technologies, Inc. ("SRC") and Econo-Comm, Inc. ("ECI") by merging these companies into two new wholly-owned subsidiaries.

The Company issued to Michael and Carol Gutowski, the principal stockholders of SRC, an aggregate of 4,867,937 shares of its non-voting Series C Preferred Stock and a like number of ten year Class C Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The

Class C Warrants are not exercisable and are not detachable from the C Preferred Stock prior to 66 months after their issuance. The Company issued to the other common stockholders of SRC, including Larry Reid, SRC's Chief Operating Officer, an aggregate of 899,976 shares of its Common Stock, 1,697,961 shares of its non-voting Series A Preferred Stock and a like number of ten year non-detachable Class A Warrants, each to purchase one share of its Common Stock at \$1.00 per share. The Class A Warrants are not exercisable and are not detachable from the A Preferred Stock prior to 66 months after their issuance. The Company issued an aggregate of 440,000 shares of its Series B Preferred Stock to the holders of the SRC Series B Preferred Stock. The A Preferred Stock has an aggregate liquidating preference over all other CNE equity of \$1,697,961 and the B Preferred Stock has an aggregate liquidating preference over all other CNE equity except the A Preferred Stock of \$440,000. The C Preferred Stock has no liquidating preference.

The Company issued to Gary Eichsteadt and Thomas Sullivan, the stockholders of ECI, an aggregate of 4,867,938 shares of its Series C Preferred Stock and a like number of Class C Warrants. In addition, Messrs. Eichsteadt and Sullivan retained certain of ECI's trade receivables aggregating approximately \$100,000. The Company also acquired a patent related to the operation of ECI's business from Mr. Eichsteadt for four notes each in the principal amount of \$500,000, bearing interest at the annual rate of 8%, payable quarterly, and due on October 31, 2008.

There were no relationships between the Company or any of its affiliates and any of the sellers of the assets acquired by the Company prior to the acquisition transactions. Messrs. Gutowski and Reid and Ms. Gutowski became directors and Mr. Gutowski became President and Mr. Reid became Executive Vice President of the Company immediately subsequent to the consummation of the acquisitions. Ms. Gutowski and Messrs. Eichsteadt and Sullivan became executive officers, respectively, of the Company's subsidiaries that merged with SRC and ECI.

#### Financing

On April 23, 2003, the Company also effected a private financing pursuant to which it issued notes (the "Notes") in the aggregate principal amount of \$750,000, of which \$650,000 was from the officers of the Company, and 3,124,350 ten year Class B Warrants, each to purchase one share of its Common Stock at \$0.50 per share. The Notes bear interest at the annual rate of 10% payable quarterly and are due on April 30, 2004. The Warrants are anti-dilutive until the Notes have been repaid. The due date of the Notes may be extended at the Company's option for an additional year in consideration for the issuance of 10-year warrants to purchase 5% of the Company's then outstanding common stock at \$0.50 per share. These Warrants will also be anti-dilutive until the Notes have been repaid.

The Company is using the funds obtained from this financing to pay certain ECI notes payable and for working capital. The financing was effected pursuant to the exemption from the registration provisions of the Securities Act of 1933 provided by Section 4(2) thereof.

#### 2003 Stock Incentive Plan

On April 30, 2003 a majority of the stockholders and the Board of Directors of the Company approved the 2003 Stock Incentive Plan (the "2003

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Plan"), which provides, among other matters, for incentive and non-qualified stock options to purchase 3,500,000 shares of Common Stock. The purpose of the 2003 Plan is to provide incentives to officers, key employees, directors, independent contractors and agents whose performance will contribute to the long-term success and growth of the Company, to strengthen the ability of the Company to attract and retain officers, key employees, directors, independent contractors and agents of high competence, to increase the identity of interests of such people with those of the Company's stockholders and to help build loyalty to the Company through recognition and the opportunity for stock ownership. The 2003 Plan is administered by the Incentive Compensation Committee of the Board. In addition, on April 30, 2003, options to purchase 1,987,500 shares were granted to (5) officers (1,800,000) and one (1) employee (187,500) of the Company. No options granted have been exercised.

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

#### General

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. The catastrophe of September 11, 2001 involved no injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed.

Since the attack, the Company's management has been preoccupied with the relocation and reestablishment of its businesses, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and seeking sources of financing. In 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, has recorded a \$152,934 gain on assets destroyed due to this catastrophe of which \$132,047 was recorded in the three months ended March 31, 2002.

The Company also had insurance coverage for other than assets destroyed. As of March 31, 2003 all outstanding insurance claims relating to the catastrophe have been received.

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

E-recruiting activities are derived from the operations of the two divisions of our wholly-owned subsidiary, CareerEngine, Inc. These divisions, CareerEngine Network and CareerEngine Solutions, provide on- and off-line companies with products and services addressed to meeting on-line recruiting problems.

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### Critical Accounting Policies

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

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

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### Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-QSB constitute "forward-looking statements" relating to the Company within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding future events, our financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In some cases you can identify forward-looking statements by terminology, such as "may," "will," "would," "should," "could," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those contemplated by the statements. In evaluating these statements, you should specifically consider various factors that may cause our actual results to differ materially from any forward-looking statements.

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#### A. Results of Operations:

Three-Month Period Ended March 31, 2003 Compared to the Three-Month Period Ended March 31, 2002

##### Revenues

Total revenues from continuing operations decreased to \$45,321 for the three-month period ended March 31, 2003 from \$75,092 for the three-month period ended March 31, 2002.

Service fee income decreased to \$45,039 for the three-month period ended March 31, 2003 from \$74,688 for the three-month period ended March 31, 2002 as the operations of our subsidiary, CareerEngine, Inc. have decreased since January 2002.

##### Costs and expenses

Total costs and expenses from continuing operations decreased to \$288,244

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for the three-month period ended March 31, 2003 from \$463,419 for the three-month period ended March 31, 2002.

Compensation and related costs decreased to \$90,231 for the three-month period ended March 31, 2003 from \$187,787 for the three-month period ended March 31, 2002. The decrease is due to the Company's cost reduction strategy, consisting primarily of significant staff reductions, which commenced in December 2000.

Advertising expense decreased to nil for the three-month period ended March 31, 2003 from \$10,000 for the three-month period ended March 31, 2002 as CareerEngine, Inc. continued its cost reduction program, focused primarily on compensation and advertising related expenditures.

General and administrative expenses decreased to \$110,071 for the three-month period ended March 31, 2003 from \$171,475 for the three-month period ended March 31, 2002 due primarily to significantly reduced operating costs associated with our subsidiary, CareerEngine, Inc. These costs consisted principally of travel, telephone and legal expenses, supplies, and website related expenditures.

Interest expense decreased to \$87,942 for the three-month period ended March 31, 2003 from \$94,157 for the three-month period ended March 31, 2002 primarily due to the Company's recognition, as interest expense, of all of the remaining unamortized debt discount relating to its debentures payable in 2002.

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### Other Items

Gain on fixed assets destroyed in catastrophe of \$132,047 for the three-month period ended March 31, 2002 relates to the destruction of the World Trade Center where the Company was headquartered.

Reversal of Directors fees of \$55,000 for the three-month period ended March 31, 2002 relates to the forgiveness of fees earned by the outside Directors and their agreement to forego these fees until further notice.

### Operating Loss

On a pre-tax basis, we had a loss of \$242,923 for the three-month period ended March 31, 2003 from continuing operations compared with a loss of \$201,280 for the three-month period ended March 31, 2002 from continuing operations.

Our loss from continuing operations for the three-month period ended March 31, 2003 was \$242,923 compared with a loss from continuing operations of \$206,530 for the three-month period ended March 31, 2002. For the three-month periods ended March 31, 2003 and 2002, loss per common share from continuing operations, basic and diluted, was \$.04 per share.

Our income from discontinued operations for the three-month period ended March 31, 2002 was due primarily to the transfer of title to the six theaters leased to Carmike Cinemas, Inc. by the Company to the banks in payment of the related non-recourse debt, and the consequential recognition of the related gain representing the excess of liabilities over the carrying value of the theaters. For the three-month period ended March 31, 2002, income per common share from discontinued operations, basic and diluted, was \$.67 per share.

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Our net loss for the three-month period ended March 31, 2003 was \$242,923 compared with net income of \$3,506,354 for the three-month period ended March 31, 2002. For the three-month period ended March 31, 2003, net loss per common share, basic and diluted, was \$.04 per share. For the three-month period ended March 31, 2002, net income per common share, basic and diluted, was \$.63 per share.

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### B. Liquidity and Capital Resources

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows, has a working capital deficit and at March 31, 2003 has a capital deficiency. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. However, there is no assurance that the Company will achieve profitable operations or cash flow.

Management believes that such working capital deficit, losses and negative operating cash flows will be positively addressed by the subsequent events disclosed within these financial statements as of March 31, 2003 and 2002 and the three month periods then ended. A preliminary unaudited condensed Pro-forma Balance Sheet as of March 31, 2003, setting forth the effect of these subsequent transactions, is presented in Part II - Other Information, Item 5: Other Information-Preliminary Condensed Pro-forma Balance Sheet Information, within this Form 10Q-SB.

We do not have any material commitments for capital expenditures as of March 31, 2003.

### C. American Stock Exchange

The Company received a letter dated March 15, 2002 from the Exchange (the "Letter") indicating that the Company is not in compliance with the Exchange's continuing listing requirements in that the Company has sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years and its Stockholders' Equity is less than \$4,000,000.

Management believes that the subsequent events disclosed within these financial statements as of March 31, 2003 and 2002 and the three-month periods then ended appropriately addresses the American Stock Exchange continuing listing requirements. See B above.

### D. Inflation

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

### Item 3. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures are effective in ensuring that all material information

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required to be filed in this Quarterly Report on Form 10-QSB has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date they completed their evaluation.

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### PART II

#### OTHER INFORMATION

##### Item 1. Legal Proceedings.

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.

##### Item 5. Other Information.

###### Preliminary Unaudited Pro-forma Balance Sheet Information

Preliminary unaudited Pro-forma Balance Sheet information, as of March 31, 2003, relating to the subsequent events set forth in Part I: Financial Information, Item 1: Financial Statements, is as follows:

|                                       |                        |
|---------------------------------------|------------------------|
| Assets:                               |                        |
| Cash                                  | \$ 895,000             |
| Accounts receivable                   |                        |
| Inventory                             | 234,000                |
| Other                                 | 11,000                 |
|                                       | -----                  |
| Current assets                        | 1,140,000              |
| Fixed assets, net                     | 355,000                |
| Deferred financing costs, net         | 78,000                 |
| Intellectual property rights, net     | 2,390,000              |
| Goodwill                              | 6,631,000              |
| Other                                 | 32,000                 |
|                                       | -----                  |
| Total assets                          | \$ 10,626,000<br>===== |
| Liabilities:                          |                        |
| Accounts payable and accrued expenses | \$ 733,000             |
| Short-term financing arrangements     | 583,000                |
| Other                                 | 5,000                  |
|                                       | -----                  |
| Current liabilities                   | 1,321,000              |
| Notes payable                         | 3,000,000              |
| Deferred grant revenue                | 292,000                |
| Other liabilities                     | 34,000                 |
|                                       | -----                  |
| Total liabilities                     | 4,647,000<br>-----     |
| Capital:                              |                        |
| Preferred Stock                       |                        |
| Common Stock                          |                        |
| Paid-in-surplus                       | 23,047,000             |
| Retained earnings                     | (14,145,000)           |
| Treasury stock                        | (2,873,000)            |



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|                               |                             |
|-------------------------------|-----------------------------|
| Total capital                 | -----<br>5,979,000<br>----- |
| Total liabilities and capital | \$ 10,626,000<br>=====      |

Please be advised the information presented herein may significantly change upon the filing of the related Form 8-K Financial Information due no later than July 6, 2003.

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Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-QSB constitute "forward-looking statements" relating to the Company within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding future events, our financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In some cases you can identify forward-looking statements by terminology, such as "may," "will," "would," "should," "could," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those contemplated by the statements. In evaluating these statements, you should specifically consider various factors that may cause our actual results to differ materially from any forward-looking statements.

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

- (a) Exhibit 99.1: Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Exhibit 99.2: Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

- (c) Reports on Form 8-K:

The Company filed a report on Form 8-K on May 6, 2003 and said report and exhibits thereto are incorporated into this Form 10-QSB by reference.

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SIGNATURES

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

CNE GROUP, INC.

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/s/ George W. Benoit

Date: May 20, 2003

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

/s/ Anthony S. Conigliaro

Date: May 20, 2003

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Anthony S. Conigliaro, Vice President  
and Chief Financial Officer

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CareerEngine Network, Inc. (the "Registrant") on Form 10-QSB for the quarterly period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George W. Benoit, Chairman of the Board of Directors and Chief Executive Officer of the Registrant, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed the Report of the Registrant;
2. To the best of my knowledge, the Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Report;
3. To the best of my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the Registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the Report is being prepared;
  - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and
  - c) presented in the Report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit

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Committee of Registrant's Board of Directors:

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ George W. Benoit

Date: May 20, 2003

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

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### CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CareerEngine Network, Inc. (the "Registrant") on Form 10-QSB for the quarterly period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony S. Conigliaro, Vice President and Chief Financial Officer of the Registrant, certify, pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed the Report of the Registrant;
2. To the best of my knowledge, the Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Report;
3. To the best of my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the Registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the Report

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is being prepared;

- b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and
  - c) presented in the Report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors:
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Anthony S. Conigliaro

Date: May 20, 2003

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Anthony S. Conigliaro, Vice President  
and Chief Financial Officer