

Edgar Filing: CNE GROUP INC - Form 10QSB/A

CNE GROUP INC  
Form 10QSB/A  
November 22, 2005

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

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended September 30, 2005  
-----

----- 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  
-----

56-2346563  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

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

255 West 36th Street, Suite 800, New York, N.Y. 10018  
-----

(Address of Principal Executive Offices)

212-300-2112  
-----

(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 X No  
--- ---

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

Yes --- No X  
---

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

Class -----	Outstanding at November 1, 2005 -----
Common stock - par value \$.00001 -----	12,374,248 shares -----

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

1

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

	September 30, 2005	December 31, 2004
	-----	
	(Unaudited)	
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 79,641	\$ 84,408
Accounts receivable, net of allowance for doubtful accounts of \$66,000 in 2005 and \$51,000 in 2004	250,541	172,010
Inventory	466,477	260,487
Other current assets	9,642	8,273
	-----	-----
Total current assets	806,301	525,178
Fixed assets, net	315,099	394,509
Intellectual property rights, net	1,312,140	1,361,948
Goodwill	7,285,894	7,285,894
Marketing and distribution agreement	125,000,000	
Other assets		21,265
	-----	-----
Total assets	\$ 134,719,434	9,588,794
	=====	=====
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued expenses	\$ 2,330,43	\$ 1,476,124
Interest payable	250,481	128,050
Short-term credit arrangements	--	191,395
Line of credit	--	19,199

Edgar Filing: CNE GROUP INC - Form 10QSB/A

Current portion of notes payable	12,148	17,243
Due to related party	1,282,918	--
Notes and debenture payable	502,455	850,000
10% subordinated notes payable	1,300,000	966,710
12% Debentures payable	100,000	--
Tax assessment payable	7,500	--
Senior secured note payable due to related party	124,649,990	
Other notes payable	--	23,330
	-----	-----
Total current liabilities	130,435,926	3,672,051
Notes payable, net of current portion	--	22,059
Deferred grant revenue	--	300,000
	-----	-----
Total liabilities	130,435,926	3,994,110
	-----	-----
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock	145	134
Common stock	127	121
Paid-in surplus	30,243,169	29,919,185
Accumulated deficit	(23,086,833)	(21,451,656)
	-----	-----
	7,156,608	8,467,784
Less treasury stock, at cost - 1,238,656 shares	(2,873,100)	(2,873,100)
	-----	-----
Total stockholders' equity	4,283,508	5,594,684
	-----	-----
Total liabilities and stockholders' equity	\$ 134,719,434	\$ 9,588,794
	=====	=====

See Notes to Consolidated Financial Statements.

2

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Three Months		Nine Months	
	Ended September 30,		Ended September	
	2005	2004	2005	(Unaudited)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Product sales	\$ 288,628	\$ 385,711	\$ 801,589	\$ 1,402,033
Service fee income	170,327	215,364	522,741	1,402,033
Internet related income	12,750	41,920	77,703	1,402,033
	-----	-----	-----	-----
	471,705	642,995	1,402,033	2,804,066
Cost of goods sold	72,298	300,574	400,167	1,402,033
	-----	-----	-----	-----
Gross profit	399,407	342,421	1,001,866	1,402,033

Edgar Filing: CNE GROUP INC - Form 10QSB/A

Other expenses:				
Advertising	19,257	5,909	53,542	
Compensation and related costs	(65,340)	207,324	335,947	1
Organizational costs	36,860		36,860	
General and administrative	1,759,692	322,507	2,219,384	
Product development		92,904		
Depreciation and amortization	17,269	48,848	114,816	
	1,767,738	677,492	2,760,549	2
Loss before other income (expenses)	(1,368,331)	(335,071)	(1,758,683)	(1)
Other income (expenses):				
Amortization of debt discount	--	(24,963)	(33,290)	
Grant income	--	--	300,000	
Gain on sale of subsidiary	341	--	341	
Interest expense	(9,444)	(110,757)	(143,569)	
Interest income	(67)	277	24	
	(9,170)	(135,443)	123,506	
	(1,377,501)	(470,514)	(1,635,177)	(1)
Provision for income taxes	--	--	--	
Net loss	\$ (1,377,501)	\$ (470,514)	\$ (1,635,177)	\$ (1)
Loss per common share - basic and diluted:	\$ (0.12)	\$ (0.04)	\$ (0.15)	\$
Weighted average number of common shares outstanding - basic and diluted:	11,640,915	10,640,915	11,263,137	10

See Notes to Consolidated Financial Statements.

3

CNE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended Se	
	-----	
	2005	
	(Unaudited)	(U
Cash flows from operating activities:		
Net loss	\$ (1,635,177)	\$ (
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	114,816	
Provision for doubtful accounts	15,000	
Issuance of common stock for services	54,000	

Edgar Filing: CNE GROUP INC - Form 10QSB/A

Amortization of debt discount	33,290	
Changes in:		
Accounts receivable	(93,531)	
Inventory	(205,990)	
Prepaid expenses and other assets	69,704	
Accounts payable, accrued expenses and deferred grant revenue	643,453	
	-----	
Net cash used in operating activities	(1,004,435)	(
Cash flows from investing activities:		
Purchase of furniture and equipment	(35,406)	
Net cash used in investing activities	(35,406)	
Cash flows from financing activities:		
Proceeds from issuance of Series G Preferred Stock	220,000	
Proceeds from sale of 333,333 shares of restricted common stock	50,000	
Proceeds from short-term credit arrangements	(191,396)	
Net proceeds from issuance of 1,750,000 shares of common stock	--	
Proceeds from issuance of 10% notes payable	--	
Proceeds from issuance of 18% notes payable	--	
Proceeds from issuance of 24% notes payable	--	
Principal repayments on short-term credit arrangements	--	
Due to related party	956,470	
Principal repayments on notes payable - other	--	
Net cash provided by financing activities	1,035,074	
Increase (decrease) in cash and cash equivalents	(4,767)	
Cash and cash equivalents at beginning of period	84,408	
Cash and cash equivalents at end of period	79,641	
Supplemental disclosures of cash flow information related to continuing operations:		
Cash paid during the period for:		
Interest	\$ 16,666	\$
	=====	
Income taxes	\$ --	\$
	=====	
Non-cash investing and financing activities relating to conversion of debt to preferred stock, and forgiveness of interest indebtedness to an officer and an employee of the Company:		
Interest payable	--	
	=====	
8% notes payable	--	
	=====	
Issuance of preferred stock, at par	--	
	=====	
Issuance of common stock, at par	--	
	=====	
Paid in surplus	--	(
	=====	
Purchase of marketing and distribution agreement in exchange for senior secured note payable due to related party:		
Marketing and distribution agreement asset	\$125,000,000.00	\$
	=====	

Edgar Filing: CNE GROUP INC - Form 10QSB/A

Liability for senior secured note payable	\$125,000,000.00	\$
Less: Deferred transaction costs	350,010.00	
	-----	
Net senior secured note payable	\$124,649,990.00	\$
	=====	
Advances made by related party and disbursed on behalf of the Company:		
Operating expenses paid by related party	\$932,908.00	\$
Deferred transaction costs paid by related party	350,010	
	-----	
Amount due to related party	\$ 1,282,918	\$
	=====	

See Notes to Consolidated Financial Statements.

4

NOTE A - THE COMPANY

The following consolidated financial statements of CNE Group, Inc. and subsidiaries (collectively referred to as the "Company or "CNE," unless the context requires otherwise) are prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-QSB and reflect all adjustments (consisting of normal recurring accruals) and 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, 2004, which was filed with the Securities and Exchange Commission.

The results of operations for the three months ended September 30, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year.

Business

-----

CNE Group, Inc. is a holding company whose primary operating subsidiaries, as of September 30, 2005, were SRC Technologies, Inc. ("SRC"), U.S. CommLink, Ltd. ("USCL") and Arrow Resources Development, Ltd. ("Arrow") 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. On November 3, 2005, the Company sold SRC and USCL pursuant to transactions described in Note J - Subsequent Events.

Arrow, a development stage enterprise, was incorporated in Bermuda On May 20, 2005. It intends to provide marketing and distribution services for lumber products pursuant to a marketing and distribution agreement with Arrow Pacific Resources PNG Ltd ("PNG"), an affiliate of Arrow Pacific Resources (s) Pte. Ltd. ("APR"). See Note E below.

The Company also generates revenue from its subsidiary, CareerEngine, Inc.,

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

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. The Company has incurred substantial losses, sustained substantial operating cash outflows and has a working capital deficit at both September 30, 2005 and December 31, 2004. 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. There is no assurance that the Company can obtain additional financing or achieve profitable operations or generate positive cash flow. The 2005 and 2004 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.

5

### NOTE A - THE COMPANY (CONTINUED)

#### Private Financings

- 
1. 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 approved by the Company's Common Stockholders.
  2. 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.
  3. On or about April 20, 2005, an individual purchased 100,000 shares of the Company's Series G Preferred Stock at a price of \$0.20 per share.

On November 3, 2005, the Company exchanged all of its Series G Preferred Stock pursuant to transactions described in Note J - Subsequent Events.

#### American Stock Exchange Listing

-----

On August 25, 2005 the Company's common stock was suspended from trading on the American Stock Exchange and delisted on September 26, 2005. It now trades on the over the counter Bulletin Board.

6

### NOTE A - THE COMPANY (CONTINUED)

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

At September 30, 2005, our Stockholders' Equity was approximately \$4,283,508, our current assets were \$806,301, and our current liabilities were \$130,435,926 that primarily included a note payable in the principal amount of \$125,000,000 due from our subsidiary, Arrow, to Empire Advisory, LLC. and notes to noteholders, who include certain of our current and former directors. On November 2, 2005, we satisfied Arrow's note to Empire by issuing Empire 10,000,000 shares of our Series AAA Preferred Stock and satisfied the other notes in exchange for shares of our common stock pursuant to transactions described in Note J - Subsequent Events.

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES

[1] Inventory:

Inventory is stated at the lower of cost (determined by first-in, first-out method) or market. The Company's inventory consists of the following:

	September 30, 2005	December 31, 2004
	-----	-----
Raw materials	\$ 390,669	\$ 242,061
Work in progress	73,308	15,926
Finished goods	2,500	2,500
	-----	-----
Total	\$ 466,477	\$ 260,487
	=====	=====

[2] Fair value of financial instruments:

For financial statement instruments, including cash, accounts and accrued expenses payable and amounts due to Empire Advisory, LLC. the carrying amounts approximated fair value because of their short maturity.

[3] 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

[4] Accounting basis:

The Company uses the accrual basis of accounting for financial statement reporting. Accordingly revenues are recognized when services are rendered and expenses realized when the obligation is incurred.

[5] Income (loss) per share:

Basic and diluted earnings (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 three month periods ended September 30, 2005 and 2004. Common Stock equivalents to purchase Common Stock of the Company that were outstanding at September 30, 2005 and 2004 were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] 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 September 30, 2005 and December 31, 2004, the Company had a stock-based employee compensation plan - the 2003 Plan.

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

	Nine Month Period Ended September 30,	
	2005	2004
	-----	-----
Net loss, as reported	\$ (1,635,177)	\$ (1,695,180)
	-----	-----
Less, Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	--	(246,430)
	-----	-----
Pro forma net loss	\$ (1,635,177)	\$ (1,941,610)
	=====	=====
Net loss per share - basic and diluted:		
As reported	\$ (0.15)	\$ (0.16)
	=====	=====

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

Pro forma	\$ (0.15)	\$ (0.18)
	=====	=====

On May 10, 2005, pursuant to a litigation Settlement Agreement the Company tendered an aggregate of 850,000 shares of the Company's Common Stock to three former officers and directors in exchange for all of their (i) incentive stock

8

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

options (1,550,000), (ii) Series AA Preferred Stock (1,000,000), (iii) Series A Preferred Stock (305,336) and related Class A Warrants (305,336), and (iv) Series C Preferred Stock (4,867,937) and related Class C Warrants (4,867,937). On or about July 9, 2005, they delivered those securities required to be delivered by the settlement agreement to the Company. The Company subsequently retired these securities.

#### [7] Recent accounting pronouncements:

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 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. The adoption of this standard did not have an impact on the Company's consolidated financial statements in 2005 and 2004.

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

9

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

payment transactions with employees in the financial statements. The compensation cost is measured based upon the fair value of the instrument

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

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.

### NOTE C - RESTRUCTURING OF CERTAIN NOTES PAYABLE

As of September 30, 2005, the Company's (i) 10% Subordinated Notes amounting to \$1,000,000, (ii) 18% Promissory Note amounting to \$300,000, (iii) 10% Secured Note amounting to \$150,000, and (iv) 24% Secured Notes amounting to \$150,000, were all due and payable. Unpaid interest relating to these notes amounting to approximately \$220,000 was also due and payable. On November 2, 2005, we satisfied these notes in exchange for shares of our common stock pursuant to transactions described in Note J - Subsequent Events.

### NOTE D - LITIGATION

The Company is a party to various vendor related litigations. Management has accrued a liability of approximately \$100,000 and, accordingly, this liability has been reflected in accounts payable and accrued expenses.

### NOTE E - AGREEMENT AND PLAN OF MERGER BETWEEN ARROW RESOURCES DEVELOPMENT, LTD. AND CNE GROUP, INC.

On August 1, 2005, the Company entered into an agreement (the "Merger Agreement") with PNG and Arrow, pursuant to which, among other things, the Company would merge with Arrow and issue non-voting shares of Series AAA Preferred Stock to PNG. This stock would automatically convert into an aggregate of 624 million shares of the Company's Common Stock, which would equal 96% of the Company's outstanding shares of Common Stock when the Company's stockholders approved the conversion and an increase in the number of shares of Common Stock the Company is authorized to issue so that the conversion could be effected.

Arrow had initially been formed by the Company in anticipation of issuing 97% of its stock to PNG in consideration for the execution of a marketing and distribution agreement (the "Marketing Agreement") between Arrow and PNG and its affiliated companies, and distributing the 3% balance of Arrow's stock to the

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

Company's stockholders. Pursuant to the Marketing Agreement, the term of which would extend through July 31, 2103, PNG would retain Arrow to act as the exclusive worldwide marketer and distributor for all of its timber and derivative products. It would provide for Arrow to retain 10% of the gross sales generated by all plantation operations from all resources and all derivative products, such as paper, pulp and chips.

On or about July 12, 2005, the Company began discussions with representatives of PNG and APR, the parent of PNG, to modify the transaction with PNG, APR and their affiliates so that Arrow would merge directly into the Company. These discussions led to the execution of the Merger Agreement.

On August 1, 2005, Arrow entered into the Marketing Agreement with APR and its subsidiaries in consideration for Arrow issuing a non-interest bearing note (the "Note") in the principal amount of \$125,000,000 to Empire Advisory, LLC, ("Empire"), due on or before December 31, 2005. Empire is APR's merchant banker. The Note permitted the Company, as Arrow's sole stockholder, to cause Arrow to repay it in cash or with 10,000,000 shares of the Company's non-voting Series AAA Preferred Stock.

After the Merger Agreement was executed the parties determined to change the form but not the substance of the transaction. Rather than merging the Company and Arrow, the parties agreed that, subject to the Company receiving an independent valuation of the Marketing Agreement and audited financial statements of Arrow acceptable to it, the Company, instead of merging with Arrow, would satisfy the Note by issuing to Empire 10 million shares of voting, instead of non-voting, Series AAA Preferred Stock. Each share of this stock would grant the holder thereof the right to cast 62.4 votes, which, together with all other shares of Series AAA Preferred Stock, would constitute an aggregate of 96% of all votes on all matters brought before the Company's stockholders for a vote. The Company received the valuation and the financial statements and, on November 2, 2005, satisfied Arrow's \$125,000,000 note to Empire by issuing Empire 10 million shares of Series AAA Preferred Stock.

### NOTE F - DEFERRED TRANSACTION COSTS

Arrow has incurred certain transactional costs in connection with the transaction noted above in Note E. As of September 30, 2005, Arrow had totaling \$350,010 of deferred transaction costs. These costs include legal fees incurred by both Arrow and the Company in contemplation of the planned transaction and other offering costs incurred to Empire. As of September 30, 2005, these deferred transaction costs have been offset against the transitional senior notes payable by Arrow to Empire, since these costs will be deducted from the proceeds received from the issuance of convertible preferred stock upon successful consummation of the transaction described in Note E.

### NOTE G - MARKETING AND DISTRIBUTION AGREEMENT AND RELATED TRANSACTIONAL SENIOR NOTE PAYABLE DUE TO EMPIRE ADVISORY, LLC

11

As already discussed in August 2005, Arrow executed the Marketing Agreement. This Agreement was valued at fair value as determined based on an independent appraisal, which approximates the market value of 96% of the CNE's public stock to be issued in the transaction.

The Marketing Agreement will be amortized over 99 years (the life of the Agreement) once Arrow commences operations. As of September 30, 2005, the Company had recorded a \$125,000,000 amortizable intangible asset for this agreement and a corresponding credit to the liability for the senior secured note payable to Empire in the same amount (see Note E) pending success of the

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

transaction. No amortization of the agreement was taken during the period from Arrow's inception (May 20, 2005) to September 30, 2005, as the relevant operations had not yet commenced. Operations are expected to commence no later than the first quarter of 2006.

The senior secured note payable is non-interest bearing and could be repaid in cash or in the form of the Preferred Stock (See Note E). It was due on the earlier of December 31, 2005 without further notice or on events of default as defined therein. The senior secured note payable and any Preferred Stock issued there under are considered restricted as to the sale thereof under SEC Rule 144 as unregistered securities. As noted above, the note was repaid by CNE issuing 10 million shares of its Series AAA Preferred Stock to Empire.

### NOTE H - RELATED PARTY TRANSACTIONS

#### [1] Management Agreement with Empire Advisory, LLC

Effective August 1, 2005, Arrow entered into a Management Agreement with Empire under which Empire provides chief executive officer and administrative services to Arrow in exchange for a) an annual fee of \$300,000 for overhead expenses, b) \$25,000 per month for rent, c) \$1,000,000 per annum (subject to increases in subsequent years) for executive services, and d) a one-time fee of \$150,000 for execution of the proposed transaction.

As of September 30, 2005, Arrow had short-term borrowings of \$1,282,918 due to Empire, consisting of working capital raised by Empire on behalf of Arrow. These amounts are non-interest bearing and due on demand.

Peter Frugone is a member of Arrow's Board of Directors and is the owner of Empire. It is anticipated that on November 22, 2005 he will become the Company's Chief Executive Officer and a member of the Company's Board of Directors.

"Consulting fees and services" charged in the "Statement of Operations" for the period from inception (May 20, 2005) to September 30, 2005 incurred to Empire totaled \$641,666.

#### [2] Engagement and Management Agreements entered into with individuals affiliated with APR.

"Consulting fees and services" charged in the "Statement of Operations" for the period from Arrow's inception (May 20, 2005) to September 30, 2005 incurred to Hans Karundeng and Rudolph Karundeng under "Engagement and Management Agreements" totaled \$532,877. In addition, as of September 30, 2005 Arrow owed them a total of \$452,876. These agreements are discussed in detail in Note I.

### NOTE I - COMMITMENTS AND OTHER MATTERS

12

#### [1] Engagement and Management Agreements entered into with individuals affiliated with APR.

Effective as of May 20, 2005, Arrow entered into an Engagement Agreement with Hans Karundeng for business and financial consulting services for fees of \$1,000,000 per annum. The term of the agreement is five years. Hans Karundeng is also a 43% owner of APR.

Effective as of August 1, 2005, Arrow entered into an Employment Agreement

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

with Rudolph Karundeng for his services as Chairman of the Board of Arrow for fees of \$1,000,000 per annum. The term of the agreement is five years. Rudolph Karundeng is a son of Hans Karundeng. It is anticipated that on November 22, 2005 he will be the Company's Chief Operating Officer and a member of the Company's Board of Directors

[2] Management Agreement with Empire Advisory, LLC

See Note H above.

### -CONSULTING AGREEMENT

On May 11, 2005 the Company entered into a consulting Agreement with an individual that included the issuance of 300,000 shares of its restricted Common Stock and three-year warrants to purchase an aggregate of 250,000 shares at \$0.46 per share, subject to appropriate anti-dilution provisions. The individual has since returned the warrants to the Company and they have been cancelled.

[3] 5 Year Table of obligations under [1] and [2] above:

The minimum future obligations for consulting fees and services under agreements outlined in [1] and [2] are as follows:

Years Ending September 30, -----	Amounts -----
2006	\$ 3,041,667
2007	3,302,083
2008	3,627,604
2009	4,034,505
2010	3,506,755
	-----
	\$17,512,614
	=====

The Company also engages certain consultants to provide services including management of the corporate citizenship program and investor relations services. These agreements contain cancellation clauses with notice with periods ranging from zero to sixty days.

### NOTE J - SUBSEQUENT EVENTS

#### Background of the Transaction and Change in Control

13

On November 2, 2005, we issued 10,000,000 shares of our Series AAA Preferred Stock to Empire in payment for the note in the principal amount of \$125,000,000 issued by Arrow. In connection therewith, Empire has agreed to pay certain of our expenses, including expenses relating to this transaction, aggregating approximately \$350,000, of which approximately \$70,000 has been paid as of November 2, 2005, and the balance will be paid on or about November 22, 2005. George W. Benoit, our Chief Executive Officer, will be paid \$60,000 of this amount. Also on November 22, 2005, our current directors plan to resign and appoint designees of the Preferred Stockholders to be the Company's directors.

Subsequent to September 30, 2005, we:

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

- (i) exchanged all of our 1,392,630 shares of Series A Preferred Stock for our common stock at the rate of one share of Preferred Stock for one share of common stock and thereafter retired this Preferred Stock;
- (ii) purchased all of our 4,400 shares of Series B Preferred Stock for an aggregate price of \$20,000 and thereafter retired this Preferred Stock;
- (iii) exchanged all of our 1,145,000 Series G Preferred Stock at the rate of one share of Preferred Stock for two shares of common stock and thereafter retired this Preferred Stock;
- (iv) exchanged all of our outstanding debt, exclusive of accrued but unpaid salaries, directors' and professional fees and expenses, and exclusive of the debt cancelled pursuant to a transaction described below relating to the sale of one of SRC, in the aggregate amount of approximately \$1,370,000 for an aggregate of 2,837,533 shares of common stock;
- (v) issued 373,277 shares of common stock to independent contractors for services they rendered to us;
- (vi) except for the warrants and options referred to in the transaction relating to the sale of our subsidiary, exchanged all of our warrants and options for an aggregate of 6,275,772 shares of common stock; and
- (vii) executed mutual general releases with certain of our creditors including, among others, our officers and directors, pursuant to which all of our accrued but unpaid salaries, directors' and professional fees and expenses in the aggregate amount of approximately \$1,350,000 were released.

Subsequent to September 30, 2005, we obtained releases from our current directors and a former director, pursuant to which, for nominal consideration, they have each released us from our obligation to pay him any accrued but unpaid compensation, directors fees and/or advances, as the case may be, that we may owe him. We have also released them from all actions we may have against them except for those prohibited by applicable law. The following table sets for the amounts that they have released:

Name	Amount Released
----	-----
Joseph G. Anastasi	\$ 30,000
George W. Benoit	\$ 1,307,050
Anthony S. Conigliaro	\$ 223,333
Charles W. Currie	\$ 28,000
David W. Dube	\$ 35,000

Subsequent to September 30, 2005, we also entered into agreements with Messrs. Anastasi, Benoit, Conigliaro, Currie and Dube, members of Mr. Benoit's family, and Grace C. Lindblom and Frank Ciolli, each a beneficial owner of more

14

than 10% of our outstanding common stock at the time of the agreements, pursuant to which we issued them our common stock in exchange for debt owed by us, Series G Preferred Stock and/or options or warrants, each to purchase one share of our common stock at various prices. We were paid \$0.20 per share for the Series G Preferred Stock. The following table sets forth certain information relating to these transactions:

Name	Consideration Exchanged	Number of Shares Issu
------	-------------------------	-----------------------

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

-----	-----	-----
Joseph G. Anastasi	25,000 options and \$26,667 debt	116,8
George W. Benoit (1) (2) (4)	600,000 options	479,8
Maureen Benoit (1)	3,007,903 options and \$515,000 debt	2,656,3
George W. Benoit, Jr. (2)	49,600 shares of preferred stock	496,0
Kevin J. Benoit (2) (3)	59,400 shares of preferred stock,	
	514,277 options and \$56,667 debt	712,7
Frank Ciolli (3)	1,542,833 options and \$181,625 debt	377,3
Anthony S. Conigliaro	1,314,277 warrants and options and \$56,667 debt	1,857,5
Charles W. Currie	25,000 options and \$26,667 debt	112,6
David W. Dube	100,000 options	72,1
Grace C. Lindblom (3)	2,081,550 options and \$250,000 debt	545,1
Anne B. Mullen (2)	22,913 shares of preferred stock	228,9
Michael Mullen (4)	8,000 shares of preferred stock	80,0
Nancy C. Zucco (2)	43,003 shares of preferred stock	430,2
-----		

- (1) Maureen Benoit is George W. Benoit's wife.  
(2) This person is an adult child of George W. Benoit.  
(3) This person was a holder of 10% or more of our common stock at the time of the agreement.  
(4) Mr. Mullen is George W. Benoit's son-in-law.

We issued all of our common stock in the transactions referred to in this Note pursuant to the exemptions from the registration provisions of the securities Act of 1933 provided by Sections 3(a) (9) and 4(2) thereof.

On November 3, 2005, we entered into an agreement with Gary L. Eichsteadt, a former director, Thomas L. Sullivan, a former executive officer, and David B. Batzer pursuant to which we sold SRC and SRC-ECI, Inc., SRC's wholly-owned subsidiary, and a patent associated with these businesses, to Messrs. Eichsteadt and Sullivan in consideration for the cancellation of debt in the aggregate amount of \$50,000 we owed to Messrs. Eichsteadt and Sullivan, the cancellation of debt in the aggregate amount of approximately \$150,000 SRC owed to Mr. Eichsteadt, the cancellation of debt in the aggregate amount of approximately \$300,000 SRC owed to Mr. Batzer, and the return to us by Messrs. Eichsteadt and Sullivan of an aggregate of 1,000,000 shares of our Series AA Preferred Stock and 4,867,938 shares of our Series C Preferred Stock and the return by Messrs. Eichsteadt, Sullivan and Batcher of options and warrants to purchase an aggregate of 486,000 shares of our common stock. We have since retired and/or canceled all of the securities returned to us pursuant to this agreement. As part of this transaction Mr. Eichsteadt resigned as a director. All inter company debt was eliminated prior to closing.

On November 3, 2005, we entered into an agreement with USCL and Thomas Leyen pursuant to which all inter company debt was eliminated prior to closing, and we transferred USCL and two patents related to that business to Mr. Leyen and will pay certain of USCL's obligations in the aggregate amount not to exceed \$86,000 in consideration for Mr. Leyen canceling Options currently held by him to

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

purchase an aggregate of 300,000 shares of Common Stock.

16

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

#### General

-----

We are a holding company whose primary operating subsidiaries, as of September 30, 2005, were SRC, US Commlink and Arrow Resources Development, Ltd. SRC, also a holding company, is the parent of Connectivity and ECI. On November 3, 2005, we sold SRC and US Commlink. Arrow remains our primary operating subsidiary

On August 1, 2005, Arrow entered into a marketing and distribution agreement (the "Marketing Agreement") with Arrow Pacific Resources PNG Ltd. ("PNG"), an affiliate of Arrow Pacific Resources (S) Pte. Ltd ("APR"). APR and PNG have represented to us that they and their affiliated companies have initiated the commercial development of timber resources and a eucalyptus plantation operation in Papua, New Guinea. Pursuant to the Marketing Agreement Arrow will act as the exclusive worldwide marketer and distributor for all of APR's timber and derivative products. This Agreement terminates on July 31, 2103 unless sooner terminated or renewed in accordance with its terms. APR has been granted a license by the government of Papua, New Guinea for the development of plantation operations on more than 100,000 hectares of land and has entered into land leases with the owners of this property. The license terminates in 2098. The Marketing Agreement provides for Arrow to retain 10% of the gross sales generated by all plantation operations from all resources and all derivative products, such as paper, pulp and chips.

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 our operations.

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

17

We believe the following critical accounting policies, among others,

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

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 September 30, 2005, our allowance for doubtful accounts was \$66,000 for 20.8 % of gross receivables, compared to \$51,000 or 22.9% of gross receivables as of December 31, 2004. The decrease in the reserve as a percentage of gross receivables at September 30, 2005 as compared to December 31, 2004 is primarily the result a decreased requirement for an allowance for doubtful accounts at September 30, 2005 than at December 31, 2004.

### 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, 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

-----

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

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

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.

### Recent Accounting Pronouncements

-----

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. We adopted this standard during 2003 and the adoption did not have an impact on our consolidated financial statements in 2005 or 2004.

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. The adoption of this standard did not have an impact on our consolidated financial statements in 2005 or 2004.

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

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

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. We are currently reporting share-based payment transactions with employees in accordance with APB 25 and provides the required disclosures. SFAS 123R will be effective for us beginning January 1, 2006.

In implementing SFAS 123R we 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. We will be adopting the modified prospective application of SFAS 123R.

### A. Results of Operations:

-----  
Three-Month Period Ended September 30, 2005 Compared to the  
-----  
Three-Month Period Ended September 30, 2004  
-----

#### Revenues

Total revenues were \$471,705 for the three-month period ended September 30, 2005 decreased from \$642,995 for the three-month period ended September 30, 2004 primarily due to a decrease of the contracts awarded to Connectivity, ECI and Commlink.

20

Product sales income decreased to \$288,628 for the three-month period ended September 30, 2005 from \$385,711 for the three-month period ended September 30, 2004 primarily due to a reduction of the contracts awarded to Connectivity, ECI and Commlink.

Service fee income decreased to \$170,327 for the three-month period ended September 30, 2005 from \$215,364 for the three-month period ended September 30, 2004 primarily due to a reduction of the contracts awarded to Connectivity, ECI and Commlink.

Internet related income decreased to \$12,750 for the three-month period ended September 30, 2005 from \$41,920 for the three-month period ended September 30, 2004 as the operations of our subsidiary, Career Engine, Inc., have continued to decline due to our relatively small size in the e-recruiting industry.

#### Cost of Goods Sold

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

Costs of goods sold, which relates to product sales and related service fee income decreased to \$72,298 for the three-month period ended September 30, 2005 from \$300,574 for the three-month period ended September 30, 2004 due to the related decrease in revenues.

### Other Expenses

Total other expenses increased to \$1,767,738 for the three-month period ended September 30, 2005 from \$677,497 for the three-month period ended on September 30, 2004 due primarily to the activity of our subsidiary, Arrow, a development stage company.

Advertising expenses increased to \$19,257 for the three-month period ended September 30, 2005 from \$5,909 for the three-month period ended September 30, 2004.

Compensation and related costs decreased to \$65,340 for the three-month period ended September 30, 2005 from \$207,32 for the three-month period ended September 30, 2004. We instituted certain payroll reduction initiatives, primarily, the third quarter of 2004, including the reduction of our executive personnel and the reversal of previous accrued salaries.

General and administrative expenses increased to \$1,759,692 for the three-month period ended September 30, 2005 from \$322,507 for the three-month period ended September 30, 2004 due to the activity of our subsidiary, Arrow.

Product development expenses decreased to nil for the three-month period ended September 30, 2005 from \$92,904 for the three-month period ended September 30, 2004 due to the cessation of certain initiatives commenced by Commlink and SRC and its subsidiaries to develop products to meet our customers' future requirements.

21

Depreciation and amortization expenses decreased to \$17,269 for the three-month period ended September 30, 2005 from \$48,857 for the three-month period ended September 30, 2004

### Other Items

Amortization of debt discount decreased to nil for the three-month period ended September 30, 2005 from \$24,963 for the three-month period ended September 30, 2004 as the debt discount was fully amortized at April 30, 2005. There was no amortization in the three-month period September 30, 2005 as compared to the three-month period ended September 30, 2004.

Interest expense decreased to \$9,444 for the three-month period ended September 30, 2005 from \$110,751 for the three-month period ended September 30, 2004 due primarily to a decrease in the use, by SRC and its subsidiaries, of accounts receivable financing commonly referred to as factoring. Factoring, when utilized, has an annual interest rate in excess of 36%.

### Operating Loss

On a pre-tax basis, we had a net loss before income taxes of \$1,377,501 for the three-month period ended September 30, 2005 compared with a net loss before income taxes of \$470,514 for the

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

three-month period ended September 30, 2004.

Our net loss for the three-month period ended September 30, 2005 was \$1,377,501 compared with a net loss of \$470,514 for the three-month period ended September 30, 2004. For the three-month period ended September 30, 2005, net loss per common share, basic and diluted, was \$0.12 per share. For the three-month period ended September 30, 2004, net loss per common share, basic and diluted, was \$0.04 per share.

Nine-Month Period Ended September 30, 2005 Compared to the  
-----  
Nine-Month Period Ended September 30, 2004  
-----

### Revenues

Total revenues decreased to \$1,402,033 for the nine-month period ended September 30, 2005 from \$2,176,205 for the month period ended September 30, 2004 primarily due to a decrease in the dollar amount of the contracts awarded to Connectivity, ECI and Commlink.

Product sales income decreased to \$801,589 for the nine-month period ended September 30, 2005 from \$1,279,111 for the nine-month period ended September 30, 2004 primarily due to a decrease in the dollar amount of the contracts awarded to Connectivity, ECI and Commlink.

22

Service fee income decreased to \$522,741 for the nine-month period ended September 30, 2005 from \$798,017 for the nine-month period ended September 30, 2004 primarily due to a decrease in the dollar amount of the contracts awarded to Connectivity, ECI and Commlink I.

Internet related income decreased to \$77,703 for the nine-month period ended September 30, 2005 from \$99,127 for the month period ended September 30, 2004 as the operations of our subsidiary, CareerEngine, Inc., as the operations of our subsidiary, Career Engine, Inc., have continued 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 decreased to \$400,167 for the nine-month period ended September 30, 2005 from \$1,085,889 for the nine-month period ended September 30, 2004 due to the related decrease in revenues.

### Other Expenses

Total other expenses increased to \$2,760,549 for the nine-month period ended September 30, 2005 from \$2,333,276 for the month period ended September 30, 2004 due primarily to the activity of our subsidiary, Arrow.

Advertising expenses increased to \$53,542 for the nine-month period ended September 30, 2005 from \$42,837 for the nine-month period ended September 30, 2004. These expenditures relate to the operations of Commlink and SRC and its subsidiaries.

Compensation and related costs decreased to \$335,947 for the

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

nine-month period ended September 30, 2005 from \$1,028,916 for the nine-month period ended September 30, 2004. We instituted certain payroll reduction initiatives, primarily, the third quarter of 2004, including the reduction of our executive personnel.

Organization cost increased for the nine-month period ended September 30, 2005 to \$36,860 from nil for the nine-month period ended September 30, 2004 due to the amortization related to our subsidiary, Arrow.

General and administrative expenses increased to \$2,219,386 for the nine-month period ended September 30, 2005 from \$985,806 for the nine-month period ended September 30, 2004 due to activity of our subsidiary, Arrow.

23

Product development expenses decreased to nil for the month period ended September 30, 2005 from \$130,513 for the nine-month period ended September 30, 2004 due to the cessation of certain initiatives commenced by Commlink, Conectivity and ECI to develop products to meet our customers' future requirements.

Depreciation and amortization expenses decreased to \$114,816 for the nine-month period ended September 30, 2005 from \$145,204 for the nine-month period ended September 30, 2004.

### Other Items

Amortization of debt discount decreased to \$33,290 for the nine-month period ended September 30, 2005 from \$174,747 for the nine-month period ended September 30, 2004 due the combined effect of a decreased period of time that the amortization of the debt discount (\$699,000), relating to the 10% subordinated notes issued in April 2003, pertained, and the change in the rate of amortization when the notes were extended for an additional year in March 2004. The debt discount was fully amortized on April 30, 2005.

Interest expense decreased to \$143,569 for the nine-month period ended September 30, 2005 from \$278,099 for the nine-month period ended September 30, 2004 due primarily to a decrease in the use, by SRC and its subsidiaries, of accounts receivable financing commonly referred to as factoring. Factoring, when utilized, has an annual interest rate in excess of 36%.

Grant income increased to \$300,000 for the nine-month period ended September 30, 2005 from nil for the nine-month period ended September 30, 2004 as the restrictions set forth in the grant have expired.

### Operating Loss

On a pre-tax basis, we had a net loss before income taxes of \$1,635,177 for the nine-month period ended September 30, 2005 compared with a net loss before income taxes of \$1,695,180 for the nine-month period ended September 30, 2004.

Our net loss for the nine-month period ended September 30, 2005 was \$1,635,177 compared with a net loss of \$1,635,177 for the nine-month period ended September 30, 2004. For the nine-month period ended September 30, 2005, net loss per common share, basic and diluted,

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

was \$0.15 per share. For the nine-month period ended September 30, 2004, net loss per common share, basic and diluted, was \$0.16 per share.

### B. Liquidity and Capital Resources

-----

24

We have incurred substantial losses, sustained substantial cash outflows from operating activities and had a working capital deficit at September 30, 2005 and December 31, 2004. The above factors raise substantial doubt about our ability to continue as a going concern. Our continued existence depends on our ability to obtain additional equity and/or debt financing to fund our operations, financial obligations as they become due, and ultimately to achieve profitable operations. There is no assurance that we can obtain additional financing or achieve profitable operations or generate positive cash flow. Our 2005 and 2004 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..

On August 25, 2005, our common stock was suspended from trading on the American Stock Exchange and delisted on September 26, 2005. It now trades on the over the counter Bulletin Board.

At September 30, 2005, our Stockholders' Equity was approximately \$4,283,508, our current assets were \$806,301, and our current liabilities were \$130,435,926 that primarily included a note payable in the principal amount of \$125,000,000 due from Arrow to Empire Advisory, LLC. ("Empire") and notes to noteholders, who included certain of our directors and officers. On November 2, 2005, we satisfied Arrow's note to Empire by issuing Empire 10,000,000 shares of our Series AAA Preferred Stock and we satisfied the other notes by exchanging them for shares of our common stock pursuant to transactions described below.

On August 1, 2005, we entered into an agreement (the "Merger Agreement") with PNG and Arrow, pursuant to which, among other things, we would merge with Arrow and issue non-voting shares of Series AAA Preferred Stock to PNG. This stock would automatically convert into an aggregate of 624 million shares of our Common Stock, which would equal 96% of our outstanding shares of Common Stock when our stockholders approved the conversion and an increase in the number of shares of Common Stock we are authorized to issue so that the conversion could be effected.

We had initially formed Arrow as a Bermuda corporation on May 20, 2005, in anticipation of issuing 97% of Arrow's stock to PNG in consideration for the execution of the Marketing Agreement, and distributing the 3% balance of Arrow's stock to our stockholders. On or about July 12, 2005, we began discussions with representatives of PNG and APR to modify the transaction with PNG, APR and their affiliates so that we would merge directly with Arrow. These discussions led to the execution of the Merger Agreement.

On August 1, 2005, Arrow entered into the Marketing Agreement with APR and its subsidiaries in consideration for Arrow issuing a non-interest bearing note (the "Note") in the principal amount of

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

\$125,000,000 to Empire, due on or before December 31, 2005. Empire is APR's merchant banker. The Note permitted us, as Arrow's sole stockholder, to cause Arrow to repay it in cash or with 10,000,000 shares of the Company's non-voting Series AAA Preferred Stock.

25

After the Merger Agreement was executed the parties determined to change the form but not the substance of the transaction. Rather than merging us and Arrow, the parties agreed that, subject to our receiving an independent valuation of the Marketing Agreement and audited financial statements of Arrow acceptable to us, instead of merging with Arrow, we would satisfy the Note by issuing to Empire, on behalf of APR, 10 million shares of voting, instead of non-voting, Series AAA Preferred Stock. Each share of this stock would grant the holder thereof the right to cast 62.4 votes, which, together with all other shares of Series AAA Preferred Stock, would constitute an aggregate of 96% of all votes on all matters brought before our stockholders for a vote. We received the valuation and the financial statements and, on November 2, 2005, satisfied Arrow's \$125,000,000 note to Empire by issuing Empire 10 million shares of Series AAA Preferred Stock. In connection therewith, Empire has agreed to pay certain of our expenses, including expenses relating to this transaction, aggregating approximately \$350,000, of which approximately \$70,000 has been paid as of November 2, 2005, and the balance will be paid on or about November 22, 2005. George W. Benoit, our Chief Executive Officer, will be paid \$60,000 of this amount. Also on November 22, 2005, our current directors plan to resign and appoint designees of the Preferred Stockholders to be the Company's directors.

### Off-Balance Sheet Arrangements

-----

At September 30, 2005 and December 31, 2004, we had no off-balance sheet arrangements.

### Operating Activities

-----

We utilized \$1,004,435 of cash in operating activities during the nine-month period ended September 30, 2005. We had a net loss of \$1,635,177 during this period, which included an aggregate of \$207,106 of non-cash items, including depreciation and amortization, amortization of debt discount and allowance for doubtful accounts. In addition to the impact of non-cash items, our operating activities for the nine-month period ended September 30, 2005 also reflected an increase in accounts receivable, inventory, and accounts payable, accrued expenses, and deferred grant revenue, and a decrease in prepaid expenses and other assets.

We utilized \$1,021,523 of cash in operating activities during the nine-month period ended September 30, 2004. We had a net loss of \$1,695,180 during this period, which included an aggregate of \$383,518 of non-cash items, including depreciation and amortization, amortization of debt discount and allowance for doubtful accounts. In addition to the impact of non-cash items, our operating activities for the nine-month period ended September 30, 2004 also reflected an increase in accounts receivable, inventory, and accrued expenses and other liabilities, and a decrease in prepaid expenses and other 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 certain interest payments due officers and/or directors, waiving of 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, 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. The note payable and debt securities have been satisfied subsequent to September 30, 2005 pursuant to transactions described below. See Subsequent Events.

Subsequent Events.

-----

On November 3, 2005, we entered into an agreement with Gary L. Eichsteadt, a former director, Thomas L. Sullivan, a former executive officer, and David B. Batzer pursuant to which we sold SRC, its subsidiary and a patent associated with these businesses, to Messrs. Eichsteadt and Sullivan in consideration for the cancellation of debt in the aggregate amount of \$50,000 we owed to Messrs. Eichsteadt and Sullivan, the cancellation of debt in the aggregate amount of approximately \$150,000 SRC owed to Mr. Eichsteadt, the cancellation of debt in the aggregate amount of approximately \$300,000 SRC owed to Mr. Batzer, and the return to us by Messrs. Eichsteadt and Sullivan of an aggregate of 1,000,000 shares of our Series AA Preferred Stock and 4,867,938 shares of our Series C Preferred Stock and the return by Messrs. Eichsteadt, Sullivan and Batchter of options and warrants to purchase an aggregate of 486,000 shares of our Common Stock. We have since retired and/or canceled all of the securities returned to us pursuant to this agreement. As part of this transaction Mr. Eichsteadt resigned as a director. All inter company debt was eliminated prior to closing.

On November 3, 2005, we entered into an agreement with, U.S. Commlink, Ltd. ("Commlink"), our wholly owned subsidiary, and Thomas Leyen pursuant to which all inter company debt was eliminated prior to closing, and we transferred Commlink and two patents related to that business to Mr. Leyen and will pay certain of Commlink's obligations in the aggregate amount not to exceed \$86,000 in consideration for Mr. Leyen canceling Options currently held by him to purchase an aggregate of 300,000 shares of our Common Stock.

Subsequent to September 30, 2005, we:

- (i) exchanged all of our 1,392,630 shares of Series A Preferred Stock for our common stock at the rate of one share of Preferred Stock for one share of common stock and thereafter retired this Preferred Stock;

- (ii) purchased all of our 4,400 shares of Series B Preferred

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

Stock for an aggregate price of \$20,000.00 and thereafter retired this Preferred Stock;

- (iii) exchanged all of our 1,145,000 Series G Preferred Stock at the rate of one share of Preferred Stock for two shares of common stock and thereafter retired this Preferred Stock
- (iv) exchanged all of our outstanding debt, exclusive of accrued but unpaid salaries, directors' and professional fees and expenses, and exclusive of the debt cancelled pursuant to the transaction described above relating to the sale of SRC, in the aggregate amount of approximately \$1,370,000 for an aggregate of 2,837,533 shares of common stock;
- (v) issued 373,277 shares of common stock to independent contractors for services they rendered to us; (vi) except for the warrants and options referred to in the transaction relating to the sale of our subsidiary, exchanged all of our warrants and options for an aggregate of 6,275,772 shares of common stock; and (vii) executed mutual general releases with certain of our creditors including, among others, our officers and directors, pursuant to which all of our accrued but unpaid salaries, directors' and professional fees and expenses in the aggregate amount of approximately \$1,350,000 were released.

Subsequent to September 30, 2005, we obtained releases from our current directors and a former director, pursuant to which, for nominal consideration, they have each released us from our obligation to pay him any accrued but unpaid compensation, directors' fees and/or advances, as the case may be, that we may owe him. We have also released them from all actions we may have against them except for those prohibited by applicable law. The following table sets for the amounts that they have released:

Name	Amount Released
----	-----
Joseph G. Anastasi	\$ 30,000
George W. Benoit	\$ 1,307,050
Anthony S. Conigliaro	\$ 223,333
Charles W. Currie	\$ 28,000
David W. Dube	\$ 35,000

Subsequent to September 30, 2005, we also entered into agreements with Messrs. Anastasi, Benoit, Conigliaro, Currie and Dube, members of Mr. Benoit's family, and Grace C. Lindblom and Frank Ciolli, each a beneficial owner of more than 10% of our outstanding Common Stock at the time of the agreements, pursuant to which we issued them our Common Stock

in exchange for debt owed by us, Series G Preferred Stock and/or options or warrants, each to purchase one share of our Common Stock at various prices. We were paid \$0.20 per share for the Series G Preferred Stock. The following table sets forth certain information relating to these transactions:

Edgar Filing: CNE GROUP INC - Form 10QSB/A

Name -----	Consideration Exchanged -----	Number of Shares Issued -----
Joseph G. Anastasi	25,000 options and \$26,667 debt	116,894
George W. Benoit (1) (2) (4)	600,000 options	479,887
Maureen Benoit (1)	3,007,903 options and \$515,000 debt	2,656,326
George W. Benoit, Jr. (2)	49,600 shares of preferred stock	496,000
Kevin J. Benoit (2) (3)	59,400 shares of preferred stock, 514,277 options and \$56,667 debt	712,750
Frank Ciolli (3)	1,542,833 options and \$181,625 debt	377,324
Anthony S. Conigliaro	1,314,277 warrants and options and \$56,667 debt	1,857,538
Charles W. Currie	25,000 options and \$26,667 debt	112,639
David W. Dube	100,000 options	72,117
Grace C. Lindblom (3)	2,081,550 options and \$250,000 debt	545,167
Anne B. Mullen (2)	22,913 shares of preferred stock	228,930
Michael Mullen (4)	8,000 shares of preferred stock	80,000
Nancy C. Zucco (2)	43,003 shares of preferred stock	430,230

- (1) Maureen Benoit is George W. Benoit's wife.
- (2) This person is an adult child of George W. Benoit.
- (3) This person was a holder of 10% or more of our common stock at the time of the agreement.
- (4) Mr. Mullen is George W. Benoit's son-in-law.

We issued all of our Common Stock in the transactions referred to above pursuant to the exemptions from the registration provisions of the securities Act of 1933 provided by Sections 3(a)(9) and 4(2) thereof.

C. Inflation  
-----

Due to the nature of our business, inflation does not significantly impact our operations.

Item 3. Controls and Procedures

Our Chief Executive Officer, who is also acting as our Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Rule 13a-14 of the Exchange Act. Based on that evaluation, he has concluded that our disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-QSB has been made known to him in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect

## Edgar Filing: CNE GROUP INC - Form 10QSB/A

internal controls, subsequent to the date they completed his evaluation.

30

### PART II

#### OTHER INFORMATION

Item 1. Legal Proceedings.

We are a party to various vendor related litigations. Based on the opinion of management, we have accrued an estimated liability of approximately \$100,000.

Item 5. Other Information.

None

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

Exhibit 4.1 was mislisted as Exhibit 2.1 and Exhibit 31.2 was inadvertently left out of the filing. Exhibit 4.1 is being correctly listed and Exhibit 31.2 is herewith being filed.

(a) Exhibits:

4.1 Designations of Rights and Preferences of Series AAA Preferred Stock.

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

(b) Reports on Form 8-K:

The Company filed a report on Form 8-K on August 18, 2005, a report on Form 8-K on September 6, 2005, a report on Form 8-K/A on October 24, 2005, a report on Form 8-K/A November 8, 2005 and a report on Form 8-K on November 9, 2005.

31

#### SIGNATURES

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

CNE GROUP, INC.

/s/ George W. Benoit

Date: November 21, 2005

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

