

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

FARMSTEAD TELEPHONE GROUP INC

CIK: **804331** | IRS No.: **061205743** | State of Incorporation: **DE** | Fiscal Year End: **1231**

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SIC: **5065** Electronic parts & equipment, nec

Mailing Address

*22 PRESTIGE PARK CIRCLE
EAST HARTFORD CT 06108*

Business Address

*22 PRESTIGE PARK CIRCLE
EAST HARTFORD CT 06108
8602820010*

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 1998

Commission file number 0-15938

FARMSTEAD TELEPHONE GROUP, INC.
(Name of small business issuer in its charter)

Delaware 06-1205743
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

22 Prestige Park Circle, East Hartford, CT 06108-3728
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (860) 610-6000

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

Title of each class -----	Name of Exchange on which registered -----
Common Stock, \$.001 par value	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None

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, and (2)
has been subject to such filing requirements for the past 90 days
Yes No

Check if there is no disclosure of delinquent filers in response to Item
405 of Regulation S-B contained in this form, and no disclosure will be
contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form
10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$27,738,000

As of February 26, 1999, the aggregate market value of the Common Stock of
the registrant held by non-affiliates, based upon the last sale price of
the registrant's Common Stock on such date, was \$5,627,334.

As of February 26, 1999, the registrant had 3,272,579 shares of its \$.001
par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's definitive proxy statement for the
Annual Meeting of Stockholders to be held on June 17, 1999 are incorporated
by reference in Items 9 through 13 of Part III of this Annual Report on
Form 10-KSB.

Transitional Small Business Disclosure Format: Yes No

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PART I

Item 1. Business

General

Farmstead Telephone Group, Inc. ("Farmstead" or the "Company") was incorporated in Delaware in 1986 and became publicly held in May 1987 following the completion of an initial public offering. The Company is located at 22 Prestige Park Circle, East Hartford, CT 06108, and its telephone number is (860) 610-6000. The Company is principally engaged as (i) a secondary market reseller, and authorized Lucent Dealer of remanufactured and refurbished Lucent Technologies, Inc. ("Lucent") telecommunications parts and systems, and (ii) as an authorized Lucent dealer for certain new telecommunications products. These Lucent products are primarily customer premises-based private switching systems and peripheral products, including voice processing systems. The Company also provides telecommunications equipment repair and refurbishing, rental, inventory management, and related value-added services. The Company sells its products and services primarily to both large and small end-user businesses, government agencies, and other secondary market dealers.

In January, 1994, the Company acquired certain operating assets of Cobotyx Corporation, Inc., a designer, manufacturer and supplier of voice processing systems. The Company expanded its entry into this marketplace by concurrently forming a voice processing products division operating under the trade name "Cobotyx." In December 1997, the Company decided to

begin the process of divesting itself from this business, and during 1998, while actively looking for a buyer for certain of its assets and developed technologies, significantly downsized all related operations, including terminating product development activities. To date, the Company has not located a qualified buyer for this business. The operations of the Cobotyx business unit were not material to the Company's 1998 operating results. For the years ended December 31, 1998 and 1997, Cobotyx generated revenues of \$605,000 and \$1,479,000, respectively.

In February, 1996, the Company purchased from AT&T Systems Leasing Corporation, a subsidiary of AT&T Capital Corporation, certain assets of its discontinued Asset Recovery Center ("ARC"). The assets acquired consisted primarily of warehouse equipment, vehicles, computer and office equipment, and inventory. Prior to its closing in January 1996, the ARC primarily operated to service AT&T affiliates in the orderly disposition, by way of consignment sales arrangements, of excess, overstocked and end-of-life telecommunications, computer and data transmission equipment. The Company concurrently formed a subsidiary corporation, Farmstead Asset Management Services, LLC ("FAMS"), and commenced a similar operation in Piscataway, New Jersey. Due to declining revenues and continued operating losses, effective October 1, 1997, the Company sold all of its ownership interests in FAMS. During 1997, prior to the sale date, FAMS recorded revenues of \$799,000.

Products

The Company primarily sells remanufactured, refurbished (by the Company or other equipment refurbishers) and new telecommunications parts and systems manufactured by Lucent (See "Relationship with Lucent Technologies" for further information on Lucent). These products are primarily private switching systems, generally PBXs and key systems, located at the customers premises, that permit a number of local telephones or terminals to communicate with one another, with or without use of the public telephone network. Key systems are generally used by small businesses, and are characterized by telephones which have multiple buttons permitting the user to select outgoing or incoming telephone lines directly. PBXs are private telephone switching systems usually located on a customer's premises, with an attendant console, and are designed for use by larger businesses. A PBX normally has more memory capacity and therefore can provide more features and flexibility than a key system. The Company sells both telecommunication system parts and complete systems, however the Company's revenues are predominantly from the sale of parts. Parts sold include both digital and analog telephone sets and circuit packs, and other system accessories and related products such as headsets, consoles, speakerphones, paging systems and voice processing products offered by Lucent.

Lucent key systems sold by the Company, in both piece parts and complete systems, include: Merlin(R) and Merlin Legend(R), Spirit(R) and Partner(R). Lucent PBX equipment sold by the Company, primarily in parts, include Definity(R), System 75 and System 85.

Equipment sales revenues accounted for approximately 94% of consolidated revenues from continuing operations in 1998 (93% in 1997), while service revenues comprised 6% of consolidated revenues from continuing operations in 1998

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(7% in 1997). Sales of PBX equipment and associated telephones and peripherals comprised approximately 81% of equipment sales in 1998 (85% in 1997), while key equipment and other equipment sales comprised 19% (15% in 1997).

Relationship with Lucent Technologies

Prior to February 1, 1996, the business of Lucent was conducted as a part of the operations of AT&T Corp. ("AT&T"). On February 1, 1996, as a result of a decision to restructure the company, AT&T began the process of separating Lucent into a stand-alone company. AT&T completed an IPO of Lucent shares in April 1996 and the divestiture of Lucent was completed in October 1996 through the distribution of AT&T's shares in Lucent to AT&T shareholders. Lucent is comprised of the systems and technology units that were formerly part of AT&T. With 1998 consolidated revenues of \$30.1 billion, Lucent is one of the world's leading designers, developers and manufacturers of telecommunications systems, software and products. Throughout this report, references to AT&T and Lucent will be referred to collectively as "Lucent Technologies" or "Lucent."

Since 1985, Lucent has provided support to the secondary market by continuing to offer installation, maintenance, repair, reconditioning and certification services for its products purchased by end-users through equipment resellers. Equipment resellers such as the Company may also, with various restrictions, utilize Lucent documentation, technical information and software. Lucent also generally provides up to a one-year warranty for products purchased from Lucent for resale. The installation and maintenance of Lucent equipment is generally provided by Lucent. The Company does, however, coordinate the installation scheduling directly with Lucent if requested to do so by its customer. The Company also has agreements with a number of installation and maintenance companies covering the New England and New York geographic areas who can also provide such services.

Since February 1998, the Company has been operating under a Lucent-sponsored "Authorized Remarketing Supplier" ("ARS") program as an ARS Dealer, licensed under a three-year contract entered into in December 1998 (the "ARS Agreement") to sell "Classic Lucent(TM)" products to end users nationwide. Classic Lucent products are defined as used Lucent key system and PBX system parts, currently supported by Lucent, that have been refurbished by the Company under Lucent quality standards. This designation applies to substantially all of the used Lucent products which the Company now sells. The Company is currently one of four companies authorized to participate in this program. No company has been designated an exclusive sales territory. The ARS Agreement also allows the Company to sell certain new Lucent PBX products and voice processing products to end users. Prior thereto, the Company was an "Authorized Distributor of Selected Lucent - Remanufactured Products" since 1991.

In February 1999, in connection with the Company's appointment as an ARS Dealer, the Company's new key system distributor agreement and associated dealer base were transferred to another Lucent distributor. The transfer reflects the Company's focus on developing its Classic Lucent products business.

The Company believes that its relationship with Lucent is satisfactory and has no indication that Lucent has any intention of canceling any of the existing agreements. The Company could be materially adversely affected should Lucent decide to cancel the aforementioned agreements.

Marketing and Customers

Telecommunications parts, systems and services are marketed through the Company's direct sales staff, which includes salespersons located throughout the east coast, Illinois and California, and through a network of associate dealers (until February 25, 1999), to over 2,600 business locations, with customers ranging from large, multi-location corporations, to small companies and home offices, and to equipment wholesalers, dealers, and government agencies and municipalities. Approximately 84% (90% in 1997) of the Company's revenues were generated by customers located in New

England, and along the east coast. End users accounted for approximately 87% of 1998 revenues (89 % in 1997), while sales to dealers and other resellers accounted for approximately 13% of 1998 revenues (11% in 1997). During the two years ended December 31, 1998, no single customer accounted for more than 10% of revenues from continuing operations, except for Lucent, which accounted for 15% of 1998 revenues. The Company's business is not considered seasonal.

The Company had attempted over the last several years prior to 1998 to market telecommunications equipment in the People's Republic of China and in the Republic of the Philippines. Its efforts, however, were not successful, and by the end

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of 1997 the Company ceased pursuing these international markets. The Company is currently focusing its sales efforts domestically.

Customer Services

The Company is committed to respond to its customers' service or project-oriented telecommunications needs. While each type of service is not material to the Company's operations as a whole, the Company believes they help differentiate the Company from its competitors, as well as contribute to longer-lasting customer relationships and incremental equipment sales. The Company provides the following services:

Repair and Refurbishing: The Company performs fee-based repair and refurbishing services for its customers through its in-house facilities and use of subcontract repair shops. The in-house work includes cleaning, buffing and minor repairs. The Company outsources major repairs of circuit boards and digital telephone sets.

Inventory Management: The Company provides inventory storage, accounting, and distribution services, acting as a centralized depot for its customers' idle telecommunications equipment.

Equipment Rentals: The Company rents out equipment on a month-to-month basis, servicing those customers that have temporary, short-term equipment needs.

Other Services: The Company's technical staff currently provide engineering, configuration, technical "hot line" telephone support and limited on-site installation services. For customers in the television broadcast industry the Company provides telecommunications coordination services for broadcast sports and other events throughout the country.

The Company's combined service revenues accounted for 6% of revenues from continuing operations in 1998 and 7% in 1997. No individual service category accounted for more than 5% of revenues from continuing operations.

Competition

The Company operates in a highly competitive marketplace. Telephone equipment product competitors currently include Lucent and other new equipment manufacturers such as Northern Telecom Limited, other new equipment distributors, as well as other secondary market equipment resellers, of which the Company estimates there are over 100 nationwide. In the sale of Classic Lucent products, the Company competes with the other Lucent-designated ARS Dealers. The Company believes that key competitive factors in its market are timeliness of delivery, service support, price and product reliability. The Company also considers its working relationships with its customers to be an important and integral competitive factor. The Company anticipates intensified competition from

larger companies having substantially greater technical, financial and marketing resources, as well as larger customer bases and name recognition than the Company. As the industry further develops CTI ("Computer Telephony Integration" - the actual hardware and software that attaches to both telephone systems and computers) products, the Company anticipates that it will encounter a broader variety of competitors, including new entrants from related computer and communication industries.

Suppliers

The Company obtains its telephone equipment parts for resale from a variety of sources, depending upon price and availability at the time of purchase. These sources include Lucent, its largest supplier, and other secondary market equipment dealers, distributors, leasing companies and end users. In accordance with its agreements with Lucent, the Company is required to purchase new products only from Lucent or Lucent-approved distributors. The Company is not otherwise dependent upon any other single supplier for telecommunications equipment. The Company believes that if its Lucent agreements were to be terminated, it could obtain these products from other suppliers. The Company believes that product availability in the marketplace is presently sufficient to allow the Company to meet its customers' equipment delivery requirements. See also "Relationship with Lucent Technologies."

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Patents, Licenses and Trademarks

No patent or trademark is considered material to the Company's continuing operations. Pursuant to agreements in effect with Lucent, the Company may utilize, during the term of these agreements, certain Lucent designated trademarks, insignia and symbols in the Company's advertising and promotion of Lucent products.

Employees

As of December 31, 1998, the Company had 81 employees, of which 80 were employed on a full-time basis. The Company's employees are not represented by any organized labor union and are not covered by any collective bargaining agreements.

Item 2. Property

As of December 31, 1998, the Company operated in a 34,760 square foot building in East Hartford, CT, which is being leased pursuant to a five-year lease which commenced February 1997. The lease agreement contains two three-year renewal options. The Company believes that its facilities are adequate for its present needs and suitable for their intended uses. If new or additional space is required, the Company believes that adequate facilities are available at competitive prices in the immediate areas of its current operations.

Item 3. Legal Proceedings

The Company is not a party to any pending material proceedings and no such proceedings are known to be contemplated by others.

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

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

The Company's securities are traded on the American Stock Exchange. The Company's securities and their trading symbols are as follows: Common Stock - "FTG"; Warrant issued in the Company's 1987 initial public offering ("IPO Warrants") - "FTG.WS"; Redeemable Class A Common Stock Purchase Warrant - "FTG.WS.A"; Redeemable Class B Common Stock Purchase Warrant - "FTG.WS.B". The following sets forth the range of quarterly high and low sales prices for these securities, for the two years ended December 31, 1998:

<TABLE>
<CAPTION>

Quarter Ended	Common Stock: 1998		1997		IPO Warrants: 1998		1997	
	High	Low	High	Low	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
March 31	\$3.50	\$1.81	\$4.00	\$2.75	\$1.13	\$.31	\$.38	\$.13
June 30	2.75	1.50	3.62	2.25	1.13	.63	.50	.13
September 30	2.25	1.25	2.56	1.69	.56	.38	.56	.31
December 31	2.81	1.13	2.94	1.62	.75	.31	.63	.38

<CAPTION>

Quarter Ended	Class A Warrants: 1998		1997		Class B Warrants: 1998		1997	
	High	Low	High	Low	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
March 31	\$.38	\$.06	\$.75	\$.31	\$.19	\$.03	\$.50	\$.19
June 30	.25	.06	.50	.19	.25	.03	.44	.13
September 30	.38	.13	.56	.19	.38	.06	.19	.06
December 31	.75	.25	.50	.13	.75	.19	.19	.06

</TABLE>

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There were 3,264,579 and 3,262,329 common shares outstanding at December 31, 1998 and 1997, respectively. There were 183,579 IPO Warrants and 1,137,923 Class A Warrants and Class B Warrants outstanding at December 31, 1998 and 1997. As of December 31, 1998 there were 580 holders of record of the common stock representing approximately 3,900 beneficial stockholders. The Company has paid no dividends and does not expect to pay dividends in the foreseeable future as it intends to retain earnings to finance the growth of its operations. Pursuant to a Commercial Loan and Security Agreement with First Union National Bank, the Company is prohibited from declaring or paying any dividends or making any other distribution on any of the shares of its capital stock, without the prior consent of the lender.

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

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto contained in Item 7 of this Report.

Results of Operations

Net Income (Loss)

The Company recorded net income of \$571,000 for the year ended December 31, 1998 as compared to a net loss of \$1,866,000 for the year ended December 31, 1997. The results for 1998 consisted of income from continuing operations of \$780,000, and a loss from discontinued operations of \$209,000. The results for 1997 consisted of a loss from continuing operations of \$600,000, and a loss from discontinued operations of \$1,266,000.

Due to declining revenues and resulting operating losses, effective October 1, 1997, the Company sold its wholly-owned subsidiary, Farmstead Asset Management Services, LLC ("FAMS") to FAMS, LLC, a newly formed New Jersey corporation (the "Buyer") owned by a former employee for \$40,000 in cash and a \$360,000 10% Note, payable in 60 monthly installments. In doing so, the Company recorded in 1997 a loss on disposal of FAMS of \$208,000. Prior to the effective date of sale, FAMS incurred an operating loss of approximately \$578,000 in 1997, on revenues of \$799,000. Included in the loss from discontinued operations for 1998 is a \$195,000 charge to reduce the note receivable from FAMS, LLC to its estimated realizable value.

In December 1997, due to declining revenues and resulting operating losses in the Cobotyx business unit, the Company began actively pursuing divesting itself of this voice processing products business. To date, the Company has not located a qualified buyer, however during 1998 the Company significantly reduced all business operations, including the cessation of internal product development activities. The loss from discontinued operations attributable to Cobotyx operations was \$14,000 for 1998, on revenues of \$605,000, as compared to a loss of \$480,000 in 1997 on revenues of \$1,479,000. The Company expects revenues to continue to decline as demand for the Cobotyx products diminish, however the Company does not expect this to have a material impact on future operating results.

Discussion of the Results of Continuing Operations

Revenues

Revenues from continuing operations for the year ended December 31, 1998 were \$27,738,000, an increase of \$7,179,000 or 35% from the comparable 1997 period. During 1998 the Company established several new sales offices throughout the country, and increased its sales force. The Company also benefited from its appointment as a Lucent Authorized Remarketing Supplier of Classic Lucent telephone equipment ("ARS"). These factors resulted in a 33% increase in end user equipment sales. The increase in revenues was also attributable to 66% growth in equipment sales to dealers and other resellers, and a 16% growth in service revenues, consisting principally of installations, event coordination and equipment rentals. End user equipment sales revenues accounted for 81% of revenues in 1998 (82% in 1997), while revenues from dealers and other equipment resellers accounted for 13% (11% in 1997) and services accounted for 6% of revenues (7% in 1997). As a part of its agreement in becoming an ARS, in February 1999 the Company transferred its new key system dealer base to another Lucent distributor. Revenues from this dealer base accounted for 10% of revenues in 1998 (8% in 1997). The Company anticipates that this loss in revenue will be offset by increased revenues under the ARS agreement.

Gross Profit

Gross profit from continuing operations for the year ended December 31, 1998 was \$6,922,000, an increase of \$1,823,000 or 36% from the comparable 1997 period. The overall gross profit margin was 25% of revenues during both 1998 and 1997. License fees paid in 1998 to Lucent for equipment sales under the ARS program reduced the gross profit margin by 1 percentage point however, this was offset by lower overhead costs per sales dollar on the higher volume sales level. The Company anticipates that the gross profit margin will remain at the current level for 1999.

Selling, General & Administrative ("SG&A") Expenses

SG&A expenses from continuing operations for the year ended December 31, 1998 were \$5,926,000, an increase of \$818,000 or 16% over the comparable 1997 period. SG&A expenses were 21% of revenues in 1998, versus 25% for the comparable 1997 period. Sales and marketing expenses accounted for 75% of the increase in SG&A due to increased sales compensation expenses resulting from increased sales and sales support personnel and commission payments on a higher sales volume, and from increased travel expenses in connection with supporting its remote salespersons and marketing the new ARS program to Lucent sales offices nationwide. Higher facility occupancy costs, including increased depreciation expense from fixed assets purchased in connection with the Company's 1997 business relocation, accounted for approximately 20% of the SG&A growth over 1997.

Interest Expense and Other Income

Interest expense increased \$68,000 or 33% in 1998 versus 1997. The increase was attributable to higher average debt levels as compared with the prior year. Other income from continuing operations for the years ended December 31, 1998 and 1997 consisted principally of interest earned on the Company's invested cash.

Year Ended December 31, 1997 Versus Year Ended December 31, 1996

Net Income (Loss)

The Company recorded a net loss \$1,866,000 for the year ended December 31, 1997 as compared to net income of \$882,000 for the year ended December 31, 1996. These results consisted of a loss from continuing operations of \$600,000 for 1997 as compared to income from continuing operations of \$1,206,000 for 1996, and a loss from discontinued operations of \$1,266,000 for 1997 as compared to a loss from discontinued operations of \$324,000 for 1996.

Continuing Operations

The decline in the operating results from continuing operations from 1996 to 1997 was attributable to several factors. In 1997, due to the unprofitable operations of the Company's foreign affiliates, ATC and TeleSolutions, the Company established a full valuation reserve against all associated assets, including inventory located overseas. The combined foreign affiliate losses and asset write-downs resulted in a one-time charge of \$444,000. The Company recorded approximately \$899,000 less income in 1997 from the AT&T coupon rebate program than it did in 1996, due to the expiration of this program in 1997. In addition, the Company's operating expenses increased as the Company increased its employment levels in connection with expanding its sales territory and product lines, and relocating to a larger facility.

Discontinued Operations

In September 1997, due to declining revenues and resulting operating losses, the Company entered into negotiations with an employee of FAMS for the sale of the Company's interest in FAMS. The sale transaction was completed in December, effective October 1, 1997. FAMS, LLC, a newly

formed New Jersey corporation (the "Buyer") acquired all of the Company's interest in FAMS for \$40,000 in cash and a \$360,000 10% Note, payable in 60 monthly installments. The Note is secured by a \$45,000 letter of credit and by all of the assets of FAMS. The Company has recorded a loss on disposal of FAMS of \$208,000, consisting of \$116,000 representing the excess of the book value of the net assets sold over the sales proceeds, and \$92,000 of other costs and expenses of the sale. For the years ended December 31, 1997 and 1996, FAMS recorded revenues of \$799,000 and \$1,230,000, respectively. Prior to the effective date of sale, FAMS incurred an operating loss of approximately \$578,000 in 1997, as compared with an operating loss of approximately \$370,000 in 1996.

In December 1997 the Company began actively pursuing divesting itself of its Cobotyx voice processing products business. Assets expected to be sold during 1998 include inventories, fixed assets, and certain other current assets which, as of December 31, 1997 aggregated approximately \$560,000, plus all related technologies developed by the Company, tradenames, and other contract rights. The operations of this business through its disposal date are not expected to have a material negative impact on the Company's 1998 operating results, and the Company expects to sell these assets at book value. For the years ended December 31, 1997 and 1996, voice processing product revenues approximated \$1,479,000 and

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\$2,297,000, respectively. The loss from operations was approximately \$480,000 in 1997 as compared to income from operations of \$46,000 in 1996.

Revenues

Revenues from continuing operations for the year ended December 31, 1997 were \$20,559,000, an increase of \$4,253,000 or 26% from the comparable 1996 period. The increase was attributable to sales of new products principally through the Company's associated dealers, increased end user secondary market equipment sales, and increased service revenues. Telephone equipment sales revenues accounted for approximately 93% of revenues in 1997 and in 1996, while service revenues comprised 7% of revenues in both years.

Gross Profit

Gross profit from continuing operations for the year ended December 31, 1997 was \$5,099,000, an increase of \$659,000 or 15% from the comparable 1996 period. The gross profit margin was 25% of revenues during 1997, as compared to 27% of revenues for the comparable 1996 period. The decrease in gross profit margin was attributable principally to product sales mix as sales of new equipment to dealers, which yield lower profit margins than end user sales, increased over the prior year. The decrease in the gross profit margin from the prior year was also partly attributable to lower product purchase rebates earned in 1997 from the utilization of AT&T coupons.

Selling, General & Administrative ("SG&A") Expenses

SG&A expenses from continuing operations for the year ended December 31, 1997 were \$5,108,000, an increase of \$1,558,000 or 44% over the comparable 1996 period. SG&A expenses were 25% of revenues in 1997, compared with 22% for the comparable 1996 period. The increase in SG&A in 1997 was principally attributable to (i) higher average employment levels and associated compensation costs, as the Company increased its sales, marketing, customer and technical support staff, developed a network of associate dealers, and expanded its sales territories and product lines, and (ii) higher facility rental and occupancy costs, including increased depreciation expense from fixed assets purchased in connection with the

Company's relocation to its larger headquarters in East Hartford, Connecticut.

Other Income and Expenses

Other income from continuing operations for the year ended December 31, 1997 was \$100,000, as compared with \$627,000 for the year ended December 31, 1996. Other income for 1997 consisted principally of interest earned on the Company's invested cash. Included in other income for 1996 was \$542,000 of rebates earned from AT&T on coupons tendered for redemption, net of coupon acquisition costs.

Interest expense increased \$47,000 or 30% in 1997 as compared with 1996. The increase was attributable to higher average borrowings under the Company's revolving credit facility, and interest expense incurred under a capital lease entered into in 1997.

Liquidity and Capital Resources

Working capital, defined as current assets less current liabilities, at December 31, 1998 was \$7,399,000, an increase of \$959,000 from the \$6,440,000 of working capital at December 31, 1997. The working capital ratio at December 31, 1998 was approximately 2.4 to 1 versus 3.1 to 1 at December 31, 1997. The decline in the ratio was principally attributable to the use of cash and short term borrowings to finance the increase in inventories during the fourth quarter of 1998.

Operating activities used \$2,424,000 during the year ended December 31, 1998, principally as a result of a \$4,267,000 increase in inventories. The increase in inventories was attributable to (i) a special purchase by the Company of approximately \$2 million of new equipment from Lucent in advance of a scheduled price increase, (ii) higher stocking levels of equipment refurbished by Farmstead to be sold under the Classic Lucent trademark, and (iii) increased inventories of equipment acquired from trade-ins and customer bids, requiring repair and refurbishing by Farmstead before it can be sold.

Investing activities used \$214,000 during the year ended December 31, 1998, from the purchase of telecommunications and computer equipment for the Company's internal use. The Company has no material fixed asset purchases planned for 1999.

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Financing activities generated \$2,126,000 during the year ended December 31, 1998, from advances under the Company's inventory financing and revolving credit facilities. On October 1, 1998 the Company's credit facility with Finova Capital Corporation ("Finova") was increased to \$4 million, and on February 4, 1999 further increased to \$5 million, until March 31, 1999 at which time it will revert back to a \$2 million facility. The credit line has been used to finance Lucent products purchased directly from Lucent or from approved Lucent distributors. Such advances are repayable, interest-free, in either two or three equal monthly installments, depending upon the product purchased. As of December 31, 1998, outstanding borrowings aggregated \$3,082,000, and all borrowings are secured by the Company's inventories.

The Company also maintains a \$6 million revolving loan facility with First Union National Bank, expiring May 30, 2000. Under the current agreement, effective January 1, 1999, borrowings are advanced at 75% of eligible accounts receivable, bear interest at LIBOR plus 2.75% (7.8% at December 31, 1998) and are secured by all of the Company's assets excluding inventories. The agreement requires the Company to maintain a minimum tangible net worth of \$5.75 million, increasing to \$6 million at December

31, 1999, and to maintain certain debt to net worth and debt service coverage ratios. In addition, the agreement restricts fixed asset purchases and does not allow the payment of cash dividends without the consent of the lender. There is no requirement to maintain compensating balances under the agreement. As of December 31, 1998, the unused portion of the credit facility was \$4.3 million, of which approximately \$1.2 million was available under the borrowing formula. The average and highest amounts borrowed during the year ended December 31, 1998 were approximately \$2,329,000 and \$3,673,000, respectively. Borrowings are dependent upon the continuing generation of collateral, subject to the credit limit. The weighted average interest rate on this facility debt was 9.5% for 1998 and 10.1% for 1997.

The Company believes that it has sufficient capital resources, in the form of cash and availability under its credit facilities, to satisfy its current working capital obligations, although there can be no assurances that this will be the case. The Company is currently reviewing its working capital financing needs with its current lenders, and expects to maintain its facilities at their current levels. The Company believes it can obtain similarly structured credit facilities from other credit providers on terms not materially less favorable to the Company than its present terms. Inflation has not been a significant factor in the Company's operations.

YEAR 2000 READINESS DISCLOSURES

The Company considers "Year 2000 ("Y2K") compliant" products to be those which, when used in accordance with their associated documentation, will not fail to perform in accordance with their specifications or as otherwise warranted, in any manner that is material and adverse to the customer, as relating to the product's handling of calendar dates provided, however, that the products are used only with services, products and/or software that are themselves Y2K compliant and which properly exchange accurate date data with each other. During 1998, the Company formed a Y2K Project Team to conduct an assessment of its internal business systems and products. The Team is directed by the Company's Vice President of Operations and includes other members of senior management. The Company additionally set up a Year 2000 website at www.farmstead.com that provides Year 2000 product information as well as information on the progress of the Company's Year 2000 efforts.

The Company's significant internal computer-based systems consist of hardware and packaged software purchased from outside vendors, which operate in a Windows NT Local Area Network environment. The Company plans to upgrade to Year 2000 compliant versions of these systems and equipment, and upgrade its internal use personal computers, by the end of April, 1999. The Company also plans to have a contingency plan developed by the end of September, 1999 which will address potential operational problems and customer support problems in the event an interruption in its normal operating environment should occur. The Company currently estimates that the costs to upgrade its internal use computer-based systems and associated computer hardware to Y2K compliant products will not exceed \$25,000.

The Company distributes and resells telecommunications parts and systems manufactured by Lucent. Lucent is also the Company's major product supplier. As such, the Company relies upon representations made by Lucent as to the Year 2000 compliance status of its products. Based upon information disseminated by Lucent, the Company believes that those Lucent products from which the Company principally derives its sales revenues are either currently Year 2000 compliant, or can be upgraded to a compliant version. For products determined to be non-compliant, our policy is to assist our customers in obtaining Y2K compliant components or system upgrades at a reasonable cost when, and if, Y2K compliant versions are subsequently made available.

To ensure the continued delivery of third party products and services, Farmstead has sent surveys to its major suppliers and has been assessing their responses. Since almost all of Farmstead's major suppliers are still engaged in executing their own readiness plans, Farmstead cannot, at this time, fully assess the Year 2000 risks to its supply chain. We will continue to monitor the Year 2000 status of our major suppliers and will develop appropriate contingent responses as these risks become clearer.

The Company believes that it is taking the necessary steps to resolve Year 2000 issues and to lessen the risks associated therein. The risks to the Company from a failure to resolve Year 2000 issues, either in its internal systems or from a failure on the part of its major suppliers and key business partners, are perceived by management to be similar for other businesses in the Company's industry and for other businesses generally. The Company is reliant upon its outside vendors to provide Y2K compliant upgrades to the Company's internal computer systems. The failure of the Company to obtain such Y2K compliant products could result in a temporary inability to process transactions, ship product, send invoices, or engage in similar normal operating activities on a timely basis. In such event, the Company's operating results, including sales levels or cash flow could be adversely affected. The Company believes, however, that this is mitigated somewhat by the Company's relatively small size and transaction volumes, such that manual processing procedures could be quickly implemented to accommodate most significant internal processes.

The Company can give no guarantee that the systems of other companies upon which the Company relies will be converted on time, or that a significant operating problem caused by a Y2K problem would not have a material adverse effect on the Company. Since the Company is a distributor of Lucent products, and Lucent is the Company's key supplier, the Company could be materially adversely impacted by Y2K problems which impact Lucent's ability to supply product to the Company on time, or to supply product that is Y2K compliant. It is presently unknown to what extent the Company could be materially adversely impacted by any of such scenarios.

Forward-Looking Statements

The Company's prospects are subject to certain uncertainties and risks. The discussions set forth in this Form 10-KSB report contain certain statements, based on current expectations, estimates, forecasts and projections about the industry in which the Company operates and management's beliefs and assumptions, which are not historical facts and are considered forward-looking statements within the meaning of the federal securities laws. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of certain risks, uncertainties and assumptions which are difficult to predict. They include, among other factors, general economic conditions and growth in the telecommunications industry, competitive factors and pricing pressures, changes in product mix, product demand, risk of dependence on third party suppliers, Y2K problems and other risk factors detailed in this report, described from time to time in the Company's other Securities and Exchange Commission filings, or discussed in the Company's press releases. In addition, other written or oral statements which constitute forward-looking statements may be made by or on behalf of the Company. All forward-looking statements included in this document are based upon information available to the Company on the date hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7. Financial Statements

The following report and financial statements of the Company are

contained on the pages indicated:

	Page

Report of Deloitte & Touche LLP	15
Consolidated Balance Sheets - December 31, 1998 and 1997	16
Consolidated Statements of Operations - Years Ended December 31, 1998 and 1997	17
Consolidated Statements of Changes in Stockholders' Equity - Years Ended December 31, 1998 and 1997	18
Consolidated Statements of Cash Flows - Years Ended December 31, 1998 and 1997	19
Notes to Consolidated Financial Statements	20

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

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

Incorporated by reference to the Company's proxy statement which the Company intends to file with the Securities and Exchange Commission within 120 days after the close of its fiscal year. In the event the Company is unable to file its proxy statement within such time, an amended Form 10-KSB will be filed in lieu thereof.

Executive Officers of the Company
(Information as of January 1, 1999)

<TABLE>
<CAPTION>

Name	Age	First Became An Executive Officer in	Position(s) Held
-----	---	-----	-----
<S> George J. Taylor, Jr. *	<C> 56	<C> 1984	<C> Chairman of the Board, President, Chief Executive Officer
Robert G. LaVigne *	47	1988	Executive Vice President, Chief Financial Officer, Secretary, Treasurer
Alexander E. Capo	48	1987	Vice President - Sales
Joseph A. Novak, Jr.	55	1993	Vice President - Operations
Neil R. Sullivan	47	1994	Vice President- Accounting & Administration, Assistant Secretary
Robert L. Saelens	53	1997	Vice President - Marketing

<F*> Member of the Board of Directors.

</TABLE>

George J. Taylor, Jr., Chairman of the Board of Directors and Chief Executive Officer of the Company (including its predecessors) since 1984, and President since 1989. Member of the Compensation Committee of the Board of Directors (until February 24, 1998). President of Lease Solutions, Inc. (formerly Farmstead Leasing, Inc.), a business products and automobile leasing company, from 1981 to 1993. Vice President - Marketing and Sales for National Telephone Company from 1977 to 1981. Director of Beijing Antai Communication Equipment Company, Ltd. ("ATC"). Mr. Taylor was one of the founders of the National Association of Telecommunication Dealers, has been a member of, or advisor to, its Board of Directors since its inception in 1986, and for two years served as its President and Chairman. Brother of Mr. Hugh M. Taylor, a Director of the Company.

Robert G. LaVigne, Executive Vice President since July 1997. Chief Financial Officer, Corporate Secretary and Treasurer since 1988. Vice President - Finance & Administration from 1988 until July 1997. General Manager of the domestic telephone equipment division from January 1994 until October 1994. Controller of Economy Electric Supply, Inc., a distributor of electrical supplies and fixtures, from 1985 to 1988. Corporate Controller of Hi-G, Inc., a manufacturer of electronic and electromechanical components, from 1982 to 1985. Certified Public Accountant. Director of ATC.

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Alexander E. Capo, Vice President - Sales since July 1997. Vice President - Sales & Marketing from 1987 until July 1997. Director of Sales for The Farmstead Group, Inc. from 1985 to 1987. Sales Manager for the National Telephone Company from 1972 to 1983.

Joseph A. Novak, Jr., Vice President - Operations since 1993. General Manager of Farmstead Asset Management Services, LLC from 1996 to 1997. Prior to 1990, he was employed by AT&T for 28 years, serving in various operational and sales management capacities. Vice General Manager and a Director of ATC.

Neil R. Sullivan, Vice President - Accounting & Administration since July 1997. Vice President & General Manager of the domestic telephone equipment division from August 1996 to July 1997. Corporate Controller from October 1994 to August 1996. Assistant Secretary of the Company since 1994. From 1981 to 1994 he was employed by Zero Corporation ("Zero"), a manufacturer of cabinets, cooling equipment and containers for the electronics industry. Mr. Sullivan was Controller of various divisions of Zero from 1981 to 1991, and was Vice President/General Manager of the Zero-East division from 1991 to 1994.

Robert L. Saelens, Vice President - Marketing since June 1997. President of Saelens & Associates, a marketing consulting firm, from 1989 to 1997. President of Baker, Bateson & Saelens, Inc., a marketing consulting firm, from 1982 to 1989. Prior thereto Mr. Saelens served for ten years in the Creative and Strategic planning departments of the J. Walter Thompson Corporation.

Item 10. Executive Compensation

Incorporated by reference to the Company's proxy statement which the Company intends to file with the Securities and Exchange Commission

within 120 days after the close of its fiscal year. In the event the Company is unable to file its proxy statement within such time, an amended Form 10-KSB will be filed in lieu thereof.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Incorporated by reference to the Company's proxy statement which the Company intends to file with the Securities and Exchange Commission within 120 days after the close of its fiscal year. In the event the Company is unable to file its proxy statement within such time, an amended Form 10-KSB will be filed in lieu thereof.

Item 12. Certain Relationships and Related Transactions

Incorporated by reference to the Company's proxy statement which the Company intends to file with the Securities and Exchange Commission within 120 days after the close of its fiscal year. In the event the Company is unable to file its proxy statement within such time, an amended Form 10-KSB will be filed in lieu thereof.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits: See Index to Exhibits on page 28.

(b) Reports on Form 8-K: The registrant did not file any reports on Form 8-K during the fourth quarter of 1998.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 19, 1999.

FARMSTEAD TELEPHONE GROUP, INC.

By: /s/ George J. Taylor, Jr.

George J. Taylor, Jr.
Chairman of the Board, Chief
Executive Officer and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 19, 1999.

Signature	Title
-----	-----
/s/ George J. Taylor, Jr. ----- George J. Taylor, Jr.	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
/s/ Robert G. LaVigne ----- Robert G. LaVigne	Executive Vice President, Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer)
/s/ Harold L. Hansen ----- Harold L. Hansen	Director
/s/ Hugh M. Taylor	Director

Hugh M. Taylor

/s/ Joseph J. Kelley

Director

Joseph J. Kelley

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REPORT OF DELOITTE & TOUCHE LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Farmstead Telephone Group, Inc.
East Hartford, Connecticut

We have audited the accompanying consolidated balance sheets of Farmstead Telephone Group, Inc. and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Farmstead Telephone Group, Inc. and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

February 19, 1999

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FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 1998 and 1997

<TABLE>
<CAPTION>

(In thousands, except share data)

1998

1997

<S>

<C>

<C>

ASSETS

Current assets:

Cash and cash equivalents

\$ 590

\$ 1,102

Accounts receivable, less allowance for doubtful

accounts of \$287 in 1998 and \$579 in 1997	4,950	5,077
Inventories	6,850	2,583
Net assets of discontinued operations (Note 6)	-	560
Other current assets	194	181

Total Current Assets	12,584	9,503

Property and equipment, net (Note 3)	845	935
Other assets	69	391

Total Assets	\$13,498	\$10,829
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,442	\$ 1,560
Borrowings under inventory finance agreement (Note 5)	3,082	889
Current portion of long-term debt (Note 5)	78	69
Accrued expenses and other current liabilities (Note 4)	583	545

Total Current Liabilities	5,185	3,063

Long-term debt (Note 5)	1,916	1,997
Other liabilities (Note 11)	53	-

Total Liabilities	7,154	5,060

Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 30,000,000 shares authorized; 3,264,579 and 3,262,329 shares issued and outstanding in 1998 and 1997, respectively	3	3
Additional paid-in capital	12,200	12,196
Accumulated deficit	(5,859)	(6,430)

Total Stockholders' Equity	6,344	5,769

Total Liabilities and Stockholders' Equity	\$13,498	\$10,829
=====		

</TABLE>

See accompanying notes to consolidated financial statements.

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FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1998 and 1997

<TABLE>
<CAPTION>

(In thousands, except per share amounts)	1998	1997

<S>	<C>	<C>
Revenues	\$27,738	\$20,559
Cost of revenues	20,816	15,460

Gross Profit	6,922	5,099
Selling, general and administrative expenses	5,926	5,108

Operating Income (Loss)	996	(9)

Interest expense	272	204
Equity in losses of unconsolidated subsidiaries (Note 9)	-	40
Write-down of investments in unconsolidated subsidiaries (Note 9)	-	404
Other income	(72)	(100)

Income (loss) from continuing operations before income taxes	796	(557)
Provision for income taxes	16	43

Income (Loss) From Continuing Operations	780	(600)

Discontinued Operations (Note 6):		
Loss from operations	(14)	(1,058)
Loss on sale of discontinued operation	(195)	(208)

Loss From Discontinued Operations	(209)	(1,266)

Net Income (Loss)	\$ 571	\$ (1,866)
=====		
Net Income (Loss) per Common Share		
Basic and diluted net income (loss) per common share:		
From continuing operations	\$.23	\$ (.18)
From discontinued operations	(.06)	(.39)

Basic and diluted net income (loss) per common share	\$.17	\$ (.57)

Weighted Average Common Shares Outstanding		
Basic weighted average common shares	3,264	3,262
Dilutive effect of stock options	140	-

Diluted weighted average common and common equivalent shares	3,404	3,262

</TABLE>

See accompanying notes to consolidated financial statements.

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FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
Years Ended December 31, 1998 and 1997

<TABLE>
<CAPTION>

(In thousands)	Common Stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount			
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1996	3,262	\$ 3	\$12,196	\$ (4,564)	\$ 7,635
Net loss	-	-	-	(1,866)	(1,866)

Balance at December 31, 1997	3,262	3	12,196	(6,430)	5,769
Stock options exercised	2	-	4	-	4

Net income	-	-	-	571	571
Balance at December 31, 1998	3,264	\$ 3	\$12,200	\$(5,859)	\$ 6,344

</TABLE>

See accompanying notes to consolidated financial statements.

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FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1998 and 1997

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Operating Activities:		
Net income (loss)	\$ 571	\$(1,866)
Adjustments to reconcile net income (loss) to net cash flows used by operating activities:		
Depreciation and amortization	309	308
Equity in undistributed losses of unconsolidated subsidiaries	-	40
Write-down of investments in unconsolidated subsidiaries	-	77
Write-down of accounts receivable from unconsolidated subsidiary	-	265
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	127	(1,550)
(Increase) decrease in inventories	(4,267)	528
Decrease (increase) in other assets	303	(32)
Decrease in accounts payable, accrued expenses and other current liabilities	(27)	(431)
Decrease in net assets of discontinued operations	560	462
Net cash used by operating activities	(2,424)	(2,199)
Investing Activities:		
Purchases of property and equipment	(214)	(552)
Redemptions of coupons	-	60
Net cash used in investing activities	(214)	(492)
Financing Activities:		
Bank and inventory finance borrowings	2,185	682
Repayments of capital lease obligation	(63)	(50)
Proceeds from exercise of stock options	4	-
Net cash provided by financing activities	2,126	632
Net decrease in cash and cash equivalents	(512)	(2,059)
Cash and cash equivalents at beginning of year	1,102	3,161
Cash and cash equivalents at end of year	\$ 590	\$ 1,102

Supplemental schedule of non-cash financing and investing activities:
Purchase of assets under capital lease obligation \$ - \$ 419

Supplemental disclosure of cash flow information:
Cash paid during the year for:

Interest	\$ 272	\$ 204
Income taxes	14	49

</TABLE>

See accompanying notes to consolidated financial statements.

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FARMSTEAD TELEPHONE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Operations

Farmstead Telephone Group, Inc. ("Farmstead" or the "Company") is principally engaged as (i) a secondary market reseller, and authorized Lucent Dealer of remanufactured and refurbished Lucent Technologies, Inc. ("Lucent") telecommunications parts and systems, and (ii) as an authorized Lucent dealer for certain new telecommunications products. These Lucent products are primarily customer premises-based private switching systems and peripheral products, including voice processing systems. The Company also provides telecommunications equipment repair and refurbishing, rental, inventory management, and related value-added services. The Company sells its products and services primarily to both large and small end-user businesses, government agencies, and other secondary market dealers. During the two years ended December 31, 1998, no single customer accounted for more than 10% of revenues from continuing operations except for Lucent, which accounted for 15% of 1998 revenues.

Principles of Consolidation

The consolidated financial statements presented herein include the accounts of the Company and its wholly-owned subsidiary, FTG Venture Corporation (inactive). Investments in companies in which ownership interests range from 20-50% and which the Company exercises significant influence but does not control, are accounted for under the equity method. All material intercompany transactions have been eliminated.

Accounting Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for the allowance for uncollectible accounts and notes receivable, inventory obsolescence, depreciation, taxes and contingencies, among others.

Revenue Recognition

Revenues are recognized when products are shipped or when services are performed.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on an average basis, which approximates the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from three to ten years. Maintenance, repairs and minor renewals are charged to operations as incurred.

Income Taxes

The Company provides for income taxes under the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Due to the availability of net operating loss carryforwards, federal tax expense consisted of alternative minimum taxes in 1998 and 1997, and state income tax expense consisted of minimum taxes in both years.

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Net Income (Loss) Per Share

Basic earnings (loss) per share was computed by dividing net income (loss) (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Diluted earnings (loss) per share was computed by increasing the denominator by the weighted average number of additional shares that could have been outstanding from securities convertible into common stock, such as stock options and warrants, unless their effect on net income (loss) per share is antidilutive.

Segment Information

In the opinion of management, the Company operates in one industry segment, which is the sale of telecommunications equipment.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 1998 includes an investment in a money market fund consisting of high quality short term instruments, principally U.S. Government and Agency issues and commercial paper.

3. PROPERTY AND EQUIPMENT, NET

As of December 31, the components of property and equipment, net were as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Equipment	\$ 925	\$ 820

Furniture and fixtures	84	102
Leasehold improvements	85	78
Leased equipment under capital lease	415	419

	1,509	1,419
Less accumulated depreciation and amortization	(664)	(484)

Property and equipment, net	\$ 845	\$ 935
=====		

</TABLE>

Leased equipment under capital lease at December 31, 1998 and 1997 consisted principally of office furniture, equipment and computer equipment acquired in connection with the Company's 1997 facility relocation. The accumulated amortization of the leased equipment was \$150,000 and \$61,000 at December 31, 1998 and 1997, respectively.

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of December 31, the components of accrued expenses and other liabilities were as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997

<S>	<C>	<C>
Salaries, commissions and benefits	\$501	\$480
Other	82	65

Accrued expenses and other current liabilities	\$583	\$545
=====		

</TABLE>

5. DEBT OBLIGATIONS

Inventory Financing Agreement:

On June 6, 1997, the Company entered into a \$2 million line of credit agreement with AT&T Commercial Finance Corporation which, in December 1997 was transferred to Finova Capital Corporation ("Finova"). The agreement formally expired in April 1998, however it has since continued on a discretionary basis. On October 1, 1998 the credit facility was increased to \$4 million, and on February 4, 1999 further increased to \$5 million, until March 31, 1999 at which time it will revert back to a \$2 million facility. The credit line has been used to finance Lucent products purchased directly from Lucent or from approved Lucent distributors. Such advances are repayable, interest-free, in either two or three equal monthly

installments, depending upon the product purchased. Advances to finance Lucent products purchased from other vendors ("Other Eligible Inventory") are repayable in two equal monthly installments, bear interest at prime plus 1.5%, and are subject to a \$500,000 borrowing limit. For products purchased directly from Lucent, the ratio of total collateral available to Finova (after deduction of any senior liens), to total Finova indebtedness must be at least 1.5 to 1. The ratio of Other Eligible

Inventory to advances on Other Eligible Inventory must be at least 2 to 1. The Company is currently in compliance with these requirements. As of December 31, 1998, outstanding borrowings aggregated \$3,082,000, and all borrowings are secured by the Company's inventories. The Company expects to either maintain the Finova credit facility at its present level, or obtain a similar facility with a new lender, on terms not materially less favorable to the Company than its present terms.

Long-term Debt:

As of December 31, long-term debt obligations consisted of the following (in thousands):

<TABLE>
<CAPTION>

	1998	1997

<S>	<C>	<C>
Bank revolving credit agreement (a)	\$1,688	\$1,697
Obligation under capital lease (b)	306	369

	1,994	2,066
Less current portion	(78)	(69)

Long-term debt	\$1,916	\$1,997
=====		

</TABLE>

(a) On May 30, 1997, the Company entered into a two year, \$3.5 million revolving loan agreement with First Union Bank of Connecticut (subsequently renamed First Union National Bank, hereinafter referred to as "First Union"), modifying and replacing a \$2.5 million agreement with First Union. The agreement was further modified in December 1997 and, in October 1998, the credit facility was increased to \$6 million and the expiration date was extended to May 30, 2000. The current agreement, which became effective January 1, 1999, reduced the rate charged on borrowings to LIBOR plus 2.75% (7.8% at December 31, 1998), borrowings are advanced at 75% of eligible accounts receivable and are secured by all of the Company's assets excluding inventories. The agreement requires the Company to maintain a minimum tangible net worth of \$5.75 million, increasing to \$6 million at December 31, 1999, and to maintain certain debt to net worth and debt service coverage ratios. In addition, the agreement restricts fixed asset purchases and does not allow the payment of cash dividends without the consent of the lender. There is no requirement to maintain compensating balances under the agreement. The Company was in compliance with these covenants and loan requirements at December 31, 1998. As of December 31, 1998, the unused portion of the credit facility was \$4.3 million, of which approximately \$1.2 million was available under the borrowing formula. The average and highest amounts borrowed during the year ended December 31, 1998 were approximately \$2,329,000 and \$3,673,000, respectively. Borrowings are dependent upon the continuing generation of collateral, subject to the credit limit. The weighted average interest rate on the Company's outstanding debt was 9.5% for 1998 and 10.1% for 1997.

(b) In May 1997, the Company entered into a five year, noncancelable lease agreement to finance \$419,000 of office furniture, equipment and computer equipment acquired in connection with the Company's facility relocation. Monthly lease payments are \$9,589, with a \$1.00 purchase option at the end of the lease. The effective interest rate on the capitalized lease obligation is 13.29%. As of December 31, 1998 the future minimum annual lease payments are as follows (in thousands):

<TABLE>
<CAPTION>

Year ending December 31:	
<S>	<C>
1999	\$115
2000	115
2001	115
2002	29

Total minimum lease payments	374
Less amount representing interest	(68)

Present value of net minimum lease payments under capital lease	\$306
=====	

</TABLE>

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The carrying values of the Company's borrowings approximated their fair values at December 31, 1998 and 1997.

6. DISCONTINUED OPERATIONS

FAMS

In February, 1996, the Company purchased from AT&T Systems Leasing Corporation, a subsidiary of AT&T Capital Corporation, certain assets of its discontinued Asset Recovery Center ("ARC") for a purchase price of \$250,000. Prior to its closing in January 1996, the ARC primarily operated to service AT&T affiliates in the orderly disposition, by way of consignment sales arrangements, of excess, overstocked and end-of-life telecommunications, computer and data transmission equipment. The assets acquired consisted primarily of warehouse equipment, vehicles, computer and office equipment, and inventory. The Company concurrently formed a subsidiary corporation, Farmstead Asset Management Services, LLC ("FAMS"), which used the purchased assets in a similar operation in Piscataway, New Jersey.

In September 1997, due to declining revenues and resulting operating losses, the Company entered into negotiations with an employee of FAMS for the sale of the Company's interest in FAMS. The sale transaction was completed in December 1997, effective October 1, 1997. FAMS, LLC, a newly formed New Jersey corporation (the "Buyer") acquired all of the Company's interest in FAMS for \$40,000 in cash and a \$360,000 10% Note, payable in 60 monthly installments. The Note is secured by the assets of FAMS. For the year ended December 31, 1997, the Company recorded a loss on disposal of FAMS of \$208,000, consisting of \$116,000 representing the excess of the book value of the net assets sold over the sales proceeds, and \$92,000 of other costs and expenses of the sale. During 1998 the Company recorded an additional \$195,000 charge to reduce the carrying value of the FAMS, LLC note receivable to its estimated realizable value. During 1997, prior to the effective date of sale, FAMS recorded revenues of \$799,000 and incurred an operating loss of approximately \$578,000.

Voice Processing Products

In January, 1994, the Company acquired certain operating assets of Cobotyx Corporation, Inc., a designer, manufacturer and supplier of voice processing systems, and expanded its entry into this marketplace and formed a voice processing products division operating under the trade name "Cobotyx". In December 1997, the Company decided to begin the process of divesting itself from this business, and during 1998, while actively looking for a buyer for certain of its assets and developed technologies, significantly downsized all related operations, including terminating product development activities. To date, the Company has not located a buyer for this business. For the years ended December 31, 1998 and 1997, Cobotyx voice processing product revenues approximated \$605,000 and \$1,479,000, respectively. The Company's loss from the operations of its voice processing products business was approximately \$14,000 in 1998 and \$480,000 in 1997. Net assets of discontinued operations at December 31, 1997 aggregated \$560,000, and consisted principally of inventories and fixed assets.

7. STOCK OPTIONS

The Company's 1992 Stock Option Plan ("1992 Plan") permits the granting of options to employees, directors and consultants of the Company, which shall be either incentive stock options ("ISOs") as defined under Section 422 of the Internal Revenue Code, or non-qualified stock options ("NSOs"). ISOs may be granted at no less than market value at the time of granting, with a maximum term of ten years except, for a 10% or more stockholder, the exercise price shall not be less than 110% of market value, with a maximum term of five years. NSOs may be granted at no less than 50% of market value at the time of granting, with a maximum of 10 years. The maximum number of shares issuable under the 1992 Plan, which expires in 2002, is 3,500,000.

The Company's 1986 and 1987 Key Employees and Key Personnel Stock Option Plans have expired, however options previously granted under these plans may continue to be exercised in accordance with the terms of the individual grants. Options currently granted under all plans expire on various dates through 2008.

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A summary of stock option transactions for each of the two years in the period ended December 31, 1998 is as follows:

<TABLE>
<CAPTION>

	Number of Shares	Exercise Price Range	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Outstanding at December 31, 1996	821,650	\$1.56 - 11.80	\$3.69
Granted	1,000,109	1.88 - 3.75	2.18
Exercised	-	-	-
Canceled or expired	(914,150)	2.13 - 10.00	3.58
Outstanding at December 31, 1997	907,609	1.56 - 11.80	2.14
Granted	919,570	1.19 - 2.69	1.94
Exercised	(2,250)	2.00	2.00
Canceled or expired	(63,500)	1.56 - 2.38	1.95
Outstanding at December 31, 1998	1,761,429	\$1.19 - 11.80	\$2.04

As of December 31, 1998:

Exercisable	1,168,587	\$1.56 - 11.80	\$2.08
Available for future grant	1,748,763		

</TABLE>

The following summarizes information about stock options outstanding and exercisable as of December 31, 1998:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Avg. Remaining Contractual Life (Years)	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$1.19 - 2.00	1,727,079	8.5	\$1.96	1,139,237	\$1.97
\$2.01 - 5.00	18,000	4.6	3.65	15,000	3.84
\$5.01 - 11.80	16,350	5.0	8.33	14,350	8.47

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans. Accordingly, compensation cost for stock options is recorded as the excess, if any, of the market price of the Company's common stock at the date of grant over the exercise price of the option. Had compensation cost for the Company's stock option plans been determined in accordance with the methodology prescribed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net income (loss) and basic and diluted net income (loss) per share would have approximated the pro forma amounts shown below for each of the years ended December 31 (in thousands except per share data):

<TABLE>
<CAPTION>

	1998		1997	
	As Reported	Pro forma	As Reported	Pro forma
<S>	<C>	<C>	<C>	<C>
Net income (loss)	\$571	\$(525)	\$(1,866)	\$(2,315)
Basic net income (loss) per share	.17	(.16)	(.57)	(.71)
Diluted net income (loss) per share	.17	(.15)	(.57)	(.71)

</TABLE>

The fair value of stock options used to compute pro forma net loss and net loss per share disclosures was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for both 1998 and 1997; expected volatility of 124% for 1998 (80% for 1997); risk-free interest rate of 4.93% for 1998 (5.37% for 1997), and an expected option holding period of 5 years for both 1998 and 1997.

8. STOCKHOLDERS' EQUITY

As of December 31, 1998, the following securities were outstanding:

(a) 331,363 Underwriter Options, exercisable at \$7.50 per unit, each unit consisting of one share of common stock, and one warrant to purchase 1.07 shares of common stock at \$4.67. These options, and the underlying warrants, expire June 30, 2002. The Underwriter Options were issued in connection with the Company's 1987 initial public offering.

(b) 183,579 warrants issued in connection with the Company's 1987 initial public offering, exercisable at \$4.67 per share, and entitling the holder to purchase 1.07 shares of common stock. The warrants expire June 30, 2002. The warrants are redeemable at the option of the Company at \$.05 per warrant, provided the average of the last reported sales price for ten consecutive business days, ending five days before notice of the redemption is given, of the common stock exceeds \$11.25 per share.

(c) 1,137,923 Redeemable Class A Common Stock Purchase Warrants ("Class A Warrant"), and 1,137,923 Redeemable Class B Common Stock Purchase Warrants ("Class B Warrant"), each exercisable at \$2.00 per share, and entitling the holder to purchase one share of common stock. These warrants expire August 12, 2001. The warrants are redeemable at the option of the Company at \$.10 per warrant, provided the average of the last reported sales price for twenty consecutive business days, ending five days before notice of the redemption is given, of the common stock exceeds \$2.90 per share.

Effective September 3, 1998, the Company obtained the written consent of the holders of its Class A and Class B Warrants of a unified proposal to (a) reduce the present exercise price of the Class A and Class B Warrants from \$5.28 and \$6.09, respectively to \$2.00, (b) reduce the Target Price (as defined in the Warrant Agreements) of these Warrants from \$6.09 and \$6.90, respectively, to \$2.90, (c) establish the minimum period by which the Company must notify holders of the Warrants of future modifications to the Warrant Agreements at 20 calendar days, and (d) provide for proportional increases and decreases in the Target Price of the Warrants upon future changes (if any) in the exercise price of the Warrants without the need of the Company to seek additional approval from the Warrant holders. The primary purpose of soliciting the consent of the warrant holders was to raise capital in the near term for general working capital purposes, by increasing the likelihood that, due to the proposed reductions in the exercise prices and Target Prices, the warrants may be exercised sooner than as currently contemplated under their present exercise and Target Prices.

(d) 89,948 Representative Warrants to purchase 89,948 units at an exercise price of \$2.90 per unit. Each unit consists of one share of common stock, one Class A Warrant and one Class B Warrant. The Representative Warrants were issued in 1986 to the Company's underwriter in connection with a secondary offering of securities, at an original exercise price of \$6.70 per unit. During 1998 the Company's Board of Directors voted to reduce the exercise price to \$2.90 per unit. The Representative Warrants expire September 16, 2001.

9. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

In May 1995, the Company acquired a 50% interest in Beijing Antai Communication Equipment Co., Ltd. ("ATC"), for a purchase price of \$100, plus a \$390,000 capital contribution to ATC. ATC, located in Beijing, Peoples Republic of China ("PRC"), was formed in October 1992 as a Joint Venture Enterprise, and is also owned 50% by Beijing Aquatic Products Inc. ATC, previously a distributor for the Company in the PRC, was acquired by

the Company to market, install and service telecommunications products which were developed for use in the PRC. These products included used Lucent PBX equipment, and central office equipment, consisting of proprietary Chinese system software, proprietary digital and analog interfaces, and a proprietary billing system, the combination of which would enable the PBX equipment to be operated as a small central office. In June 1997, due principally to fiscal year 1997 operating losses at ATC, and a shift in the Company's focus to domestic business development, the Company established a full reserve against both the \$77,000 balance of its investment in, and its \$265,000 accounts receivable from, ATC, resulting in a \$342,000 non-cash charge against 1997 earnings. The Company expects to divest its ownership interest in ATC in 1999.

In June 1996, the Company acquired a 40% interest in TeleSolutions, Inc., formed in association with other Philippine investors for the purpose of refurbishing, installing and selling telecommunications equipment in the Republic of the Philippines. In June 1997, the owners decided to close the operation. As a result, in 1997 the Company wrote off \$52,000 of inventory located at TeleSolutions, Inc., and expensed \$10,000 in closing costs.

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The following table shows the changes in the Company's investment in unconsolidated subsidiaries during the year ended December 31, 1997 (\$000's):

<TABLE>
<CAPTION>

	1997

<S>	<C>
Investment at beginning of year	\$117
Equity in unconsolidated subsidiary:	
Equity in net losses	(34)
Amortization of excess of cost over equity in net assets	(6)
Write-down of investment balance	(77)

Investment at end of year	\$ -
=====	

</TABLE>

10. LEASES AND OTHER COMMITMENTS AND CONTINGENCIES

In November 1996, the Company entered into a five-year lease, commencing February 1997, for a 34,760 square foot building in East Hartford, CT into which it relocated its operations. Under the terms of the lease agreement, the minimum monthly rental is \$13,759 for the first two years, \$14,483 for year three, and \$15,207, for years four and five. The lease agreement contains two three-year renewal options. Rent expense was \$173,796 in 1998 and \$197,000 in 1997. Future minimum lease payments at December 31, 1998 are as follows: \$172,348 for 1999, \$181,036 for 2000, \$182,484 for 2001, and \$30,414 for 2002, totaling \$566,282.

Effective January 1, 1998, the Company entered into a ten year employment agreement with the Chief Executive Officer ("CEO"). The agreement provides for five years of full-time employment (the "Active Period"), and five years of limited employment (the "Limited Period") commencing January 1, 2003. During the Active Period, a minimum annual base salary will be paid as follows: \$200,000 in 1998, \$250,000 in 1999, and \$300,000 for 2000 to 2003. During the Limited Period, the CEO will be

paid an annual amount equal to one-third of the base salary rate in effect at the commencement of the Limited Period, as consideration for up to fifty days of active service per year. The agreement provides for an annual bonus of up to 50% of base salary during the term of the agreement, an option to purchase up to 500,000 shares of common stock at the fair market value on the date of grant, and \$1,500,000 in life insurance for the benefit of the CEO's named designee.

The agreement provides severance pay for the CEO during the term should the Company terminate the agreement without cause, or in the event of a change in control of the Company, as defined. During the Active Period, severance pay will equal three times (i) the amount of the then-current base pay, plus (ii) the average bonus paid during the three most recent years. During the Limited Period, severance pay will equal three times the total amount that would have been due for the time remaining in the Limited Period.

11. EMPLOYEE BENEFIT PLANS

Effective January 1, 1998, the Company adopted a Supplemental Executive Retirement Plan ("SERP") for the benefit of its CEO. The SERP is a "target" benefit plan, structured to provide the CEO with an annual retirement benefit, payable over 15 years beginning at age 65, in an amount equal to one-third of the CEO's average final three-year salary, however in no event less than \$100,000 per year. The SERP is being funded through a Company-owned life insurance policy which has a projected \$50,000 annual premium for ten years. The cash surrender value of this policy was \$23,382 at December 31, 1998. For the year ended December 31, 1998, the Company expensed \$53,009, consisting of service cost of \$49,541 and interest cost of \$3,468. The Company used the Projected Unit Credit Method and a 7% interest rate in determining these amounts.

Effective July 1, 1998, the Company adopted a split dollar life insurance program for its officers and certain key employees as a means of providing a life insurance benefit and a future retirement benefit. Under this program, the Company may make discretionary contributions of up to 10% of each participant's annual compensation, which amounted to \$46,248 in 1998. For the year ended December 31, 1998, the Company expensed \$18,603. The accumulated value of each participant's account vests with the participant over a ten year period, based on years of service, with each participant 100% vested upon the later of attainment of age 65 or the completion of five years of service with the Company.

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12. INCOME TAXES

Current income tax expense attributable to income from continuing operations consisted of state income tax expense of \$6,000 and federal income tax expense of \$10,000 in 1998, and state income tax expense of \$24,000 and federal income tax expense of \$19,000 in 1997. There was no deferred federal or state income tax expense in either of those years.

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pretax income (loss) as a result of the following (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>

Computed "expected" tax expense (benefit)	\$199	\$ (634)
Increase (reduction) in income taxes resulting from:		
State and local income taxes, net of federal income tax benefit	9	16
Nondeductible life insurance	20	-
Unutilized loss of foreign subsidiary	-	133
(Realized) unrealized benefit of operating loss carryforwards	(228)	506
Other	16	22

Income tax expense	\$ 16	\$ 43
=====		

</TABLE>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 1998 and 1997 are as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997

<S>	<C>	<C>
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 221	\$ 125
Inventories, principally due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	155	139
Net operating loss and capital loss carryforwards	961	1,133
Other	43	8

Total gross deferred tax assets	1,380	1,405
Less valuation allowance	(1,380)	(1,405)

Net deferred tax assets	\$ -	\$ -
=====		
Deferred tax liabilities	\$ -	\$ -
=====		

</TABLE>

The valuation allowance is considered prudent as of December 31, 1998 due to the Company's past history of cumulative operating losses. The Company has net operating loss carryforwards for federal income tax purposes of approximately \$2,759,000 available at December 31, 1998. No federal income tax provision has been made in the accompanying financial statements, except for alternative minimum taxes, because of the presence of these net operating loss carryforwards which expire on various dates through 2017.

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INDEX TO EXHIBITS

The following documents are filed as Exhibits to this report on Form 10-KSB or incorporated by reference herein. Any document incorporated by reference is identified by a parenthetical referencing the SEC filing which included such document.

3(a) Certificate of Incorporation [Exhibit 3(a) to the S-18

- Registration Statement of the Company's securities declared effective on April 13, 1987 (File No. 3-9556B)]
- 3(b) Amendment of Certificate of Incorporation [Exhibit 3(a) to Amendment No. 2 to SB-2 Registration Statement dated July 22, 1996 (Registration No. 333-5103)]
 - 3(c) By-Laws [Exhibit 3(b) to the S-18 Registration Statement of the Company's securities declared effective on April 13, 1987 (File No. 3-9556B)]
 - 4(a) Form of Unit Warrant [Exhibit 4(a) to the S-18 Registration Statement of the Company's securities declared effective on April 13, 1987 (File No. 3-9556B)]
 - 4(b) Amended Form of Underwriter's Option [Exhibit 4(b) to the S-18 Registration Statement of the Company's securities declared effective on April 13, 1987 (File No. 3-9556B)]
 - 4(c) Resolutions adopted by Unanimous Written Consent of the Company's Board Of Directors dated as of July 9, 1992 amending terms of Warrants and Underwriter's Options [Exhibit 4(a) to the Form S-3 Registration Statement of the Company's securities declared effective on October 29, 1992 (Registration No. 33-50432)]
 - 4(d) 1992 Stock Option Plan [Exhibit 4(e) to the Annual Report on Form 10-K for the year ended December 31, 1992]
 - 4(e) Form of Underwriter's Warrant Agreement (including Form of Underwriter's Warrant) [Exhibit 4.2 to the SB-2 Registration Statement dated June 3, 1996 (Registration No. 333-5103)]
 - 4(f) Form of Warrant Certificate [Exhibit 4.1 to Amendment No. 2 to SB-2 Registration Statement dated July 22, 1996 (Registration No. 333-5103)]
 - 4(g) Form of Warrant Agreement [Exhibit 4.3 to Amendment No. 2 to SB-2 Registration Statement dated July 22, 1996 (Registration No. 333-5103)]
 - 4(h) Form of Unit Certificate [Exhibit 4.4 to Amendment No. 2 to SB-2 Registration Statement dated July 22, 1996 (Registration No. 333-5103)]
 - 4(i) Resolutions adopted by the Company's Board of Directors June 18, 1998, amending terms of Warrants and Underwriter's Options
 - 10(a) Amendment to the 1986 Key Employees and Key Personnel Stock Option Plan previously filed as Exhibit No. 4(c) in the Form S-18 Registration Statement of Farmstead Telephone Group, Inc. declared effective on April 3, 1987 [Exhibit 10.5 to the Annual Report for the year ended December 31, 1988 on Form 10-K]
 - 10(b) Amendment to the 1987 Key Employees and Key Personnel Stock Option Plan (previously filed as Exhibit No. 4(d) in the Form S-18 Registration Statement of Farmstead Telephone Group, Inc. declared effective on April 13, 1987 [Exhibit 10.6 to the Annual Report for the year ended December 31, 1988 on Form 10-K]
 - 10(c) Certificate of Amendment of Certificate of Incorporation of Farmstead Telephone Group, Inc., dated July 10, 1991 [Exhibit 10.12 to the Annual Report for the year ended December 31, 1991 on Form 10-K]
 - 10(d) Commercial Revolving Loan and Security Agreement dated June 5, 1995, between Farmstead Telephone Group, Inc. and Affiliated Business Credit Corporation [Exhibit 10.2 to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 1995]
 - 10(e) Contract for Beijing Antai Communication Equipment Company Ltd., dated September 23, 1992 [Exhibit 10.3 to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 1995]
 - 10(f) Letter agreement dated March 11, 1996, amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995 between Farmstead Telephone Group, Inc. and Affiliated Business Credit Corporation [Exhibit 10.1 to the Annual report on Form 10-KSB for the year ended December 31, 1995]
 - 10(g) Form of Underwriter's Consulting Agreement [Exhibit 10.1 to the SB-2 Registration Statement dated June 3, 1996 (Registration No. 333-5103)]

- 10(h) Letter of Agreement dated June 3, 1996 between Farmstead Telephone Group, Inc. and Lucent Technologies, Inc. [Exhibit 10.2 to Amendment No. 1 to SB-2 Registration Statement dated July 22, 1996 (Registration No. 333-5103)]
- 10(i) Agreement of Lease By and between Tolland Enterprises and Farmstead Telephone Group, Inc., dated November 5, 1996 [Exhibit 10.1 to the Quarterly Report on Form 10-QSB for the quarter ended September 30, 1996]
- 10(j) Letter agreement dated as of May 30, 1997 by and among Farmstead Telephone Group, Inc. (the "Borrower"), Farmstead Asset Management Services, LLC (the "Guarantor") and First Union Bank of Connecticut (successor-in-interest to Affiliated Business Credit Corporation) (the "Lender"), amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended, between Borrower and Lender [Exhibit 10.1 to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 1997]
- 10(k) Third Amended and Restated Revolving Promissory Note, dated June 6, 1997, in the amount of \$3,500,000 [Exhibit 10.2 to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 1997]
- 10(l) Agreement for Wholesale Financing, dated June 6, 1997, and related letter agreement dated June 3, 1997 [Exhibit 10.3 to the Quarterly Report on Form 10-QSB for the quarter ended June 30, 1997]
- 10(m) Purchase and Sale Agreement, dated December 1, 1997 by and among Farmstead Telephone Group, Inc., FTG Venture Corporation, FAMS, LLC and Farmstead Asset Management Services, LLC [Exhibit 10.1 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(n) Letter agreement dated December 1, 1997 by and among Farmstead Telephone Group, Inc., FTG Venture Corporation, FAMS, LLC and Farmstead Asset Management Services, LLC, amending the Purchase and Sale Agreement [Exhibit 10.2 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(o) FAMS, LLC Promissory Note, dated December 1, 1997 in the principal amount of \$360,000 [Exhibit 10.3 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(p) Letter agreement dated as of December 1, 1997 by and among Farmstead Telephone Group, Inc. (the "Borrower"), Farmstead Asset Management Services, LLC (the "Guarantor") and First Union National Bank (successor-in-interest to Affiliated Business Credit Corporation), amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, and as amended May 30, 1997 [Exhibit 10.4 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(q) Employment Agreement dated as of January 1, 1998 between Farmstead Telephone Group, Inc. and George J. Taylor, Jr [Exhibit 10.5 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(r) Supplemental Executive Retirement Plan, effective as of January 1, 1998 [Exhibit 10.6 to the Annual report on Form 10-KSB for the year ended December 31, 1997]
- 10(s) ARS Dealer Agreement Between Lucent Technologies and Farmstead Telephone Group, Inc. For Business Communications Systems
- 10(t) ARS License Agreement Between Lucent Technologies and Farmstead Telephone Group, Inc. For Authorized Remarketing Supplier Program
- 10(u) Letter agreement dated as of August 24, 1998 between Farmstead Telephone Group, Inc. and First Union National Bank, amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended
- 10(v) Letter agreement dated as of September 29, 1998 between Farmstead Telephone Group, Inc. and First Union National Bank, amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended

- 10(w) Letter agreement dated as of October 15, 1998 between Farmstead Telephone Group, Inc. and First Union National Bank, amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended
- 10(x) Letter agreement dated as of January 1, 1999 between Farmstead Telephone Group, Inc. and First Union National Bank, amending the Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended
- 10(y) Finova Capital Corporation letter agreement dated October 5, 1998
- 10(z) Finova Capital Corporation letter agreement dated February 4, 1999
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Resolutions Adopted by the Company's Board of Directors on June 18, 1998,
Amending Terms of the Warrants and Underwriter Options

RESOLVED, that in connection with the following warrants, namely (i) Redeemable Common Stock Purchase Warrants (the "IPO Warrants") under the Warrant Agreement (IPO Warrants) entered into by and between this Corporation the Warrant Agent, dated September 5, 1996, (the "IPO Warrant Agreement"), (ii) Class A Redeemable Common Stock Purchase Warrants (the "Class A Warrants") under the Warrant Agreement (Class A and Class B Warrants) entered into by and between this Corporation and American Securities Transfer and Trust, Inc. (the "Warrant Agent"), dated September 5, 1996, (the "Warrant Agreement") and (iii) Class B Redeemable Common Stock Purchase Warrants (the "Class B Warrants") under the Warrant Agreement, the Company is hereby authorized to cause to be mailed to each class of warrant holder of record as of July 10, 1998, a solicitation of written consents from said warrant holders in lieu of a special meeting, to approve a unified proposal amending certain provisions of each Warrant Agreement to (a) reduce the present exercise price of the Warrants to \$2.00, (b) reduce the Target Price (as defined in the Warrant Agreements) of the Warrants to \$2.90, (c) establish the minimum period by which the Company must notify holders of the Warrants of future modifications to the Warrant Agreements at 20 calendar days, and (d) if the exercise price of the aforementioned warrants shall be further reduced or increased in any respect and for whatever reason, the Target Price of the aforementioned warrants shall be proportionately adjusted, without any further action of the registered holders, by multiplying the increased or decreased exercise price by 145%, and

RESOLVED FURTHER, that if the unified proposal is not approved for any specific class of Warrants, there will be no changes, as proposed above, for that specific class only, and

RESOLVED FURTHER, that except as hereinbefore provided, the said Warrant Agreement and IPO Warrant Agreement shall remain materially unchanged and in full force and effect, and

RESOLVED FURTHER, that the Underwriter Options granted to M.H. Meyerson & Co. and to Bailey, Martin & Appel in connection with the Corporation's initial public offering (the "IPO Underwriter Options") are hereby amended as follows, to become effective only if the IPO Warrant Holders approve the unified proposal:

Unit option price: to change from \$7.50 to \$2.90 per Unit

Warrant Target Price: to change from \$11.25 to \$2.90

Underlying warrant exercise price: to change from \$4.67 to \$2.00

Shares purchasable upon exercise of warrant: no change

RESOLVED FURTHER, that the Representative Warrants granted to Schneider Securities, Inc. in connection with the Corporation's Standby Underwriting on or about September 1996 are hereby amended as follows, to become effective only if the Class A and Class B Warrant Holders approve their unified proposals:

Unit option price: to change from \$6.70 to \$2.90 per Unit

Underlying warrant Target Price: see changes to the Class A and B warrants

Underlying warrant exercise price: see changes to the Clases A and B warrants

RESOLVED FURTHER, that the proper officers of this Corporation are hereby authorized and instructed to do in the name of this Corporation all acts and things necessary to carry this resolution into effect, including obtaining the approval of the Warrant holders and causing the related Warrant Agreements to be amended as deemed necessary by the Company's Warrant Agent, and,

RESOLVED FURTHER, that the Corporation is authorized to (i) issue formal notice to the Warrant Holders and solicit a "Consent in Lieu of a Special Meeting of the Warrant Holders" for the purpose of obtaining the consent of at least 51% of the Warrant Holders of record, (ii) set July 10, 1998 as the Record Date for the determination of Warrant Holders entitled to vote on the above matters, (iii) set the close of business on September 3, 1998 as the final date for votes to be cast, and (iv) in the event that at least 51% of the votes cast are in favor of the above changes and amendments, then September 3, 1998 is hereby set as the "Effective Date" of said changes and amendments, and,

RESOLVED FURTHER, that in the event any of the warrant consent solicitations do not meet the required 51% minimum consent votes by the Effective Date, then the proper officers of this Corporation are authorized to extend the Effective Date for a period of up to thirty (30) days from the Effective Date.

/s/ Robert G. LaVigne

Robert G. LaVigne

Secretary

ARS DEALER AGREEMENT BETWEEN

LUCENT TECHNOLOGIES AND

FARMSTEAD TELEPHONE GROUP, INC.

FOR BUSINESS COMMUNICATIONS SYSTEMS

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AGREEMENT NO.: ARS-NED 99202.

ARS DEALER AGREEMENT BETWEEN LUCENT TECHNOLOGIES AND
FARMSTEAD TELEPHONE GROUP, INC.
FOR BUSINESS COMMUNICATIONS SYSTEMS

This ARS Dealer Agreement ("Agreement") is effective as of December 16, 1998 and is between Lucent Technologies Inc. ("Lucent"), a Delaware corporation, through its Business Communications Systems unit ("BCS"), with offices at 211 Mount Airy Road, Basking Ridge, New Jersey 07020, and Farmstead Telephone Group, Inc., ("Dealer"), with offices at 22 Prestige Park Circle, East Hartford, CT 06108.

WHEREAS, Lucent desires in certain geographic areas of the United States to have others with the necessary marketing capabilities, integrity and dedication to End User satisfaction to assist Lucent in marketing Business Communications Systems parts to End Users;

WHEREAS, Dealer represents that it has the necessary marketing capabilities, integrity and dedication to sell forecast quantities of Lucent Business Communications Systems parts to End Users located in Dealer's Area.

WHEREAS, the parties represent that each will conduct its business in a manner that reflects favorably on the quality image of itself, the other party and Lucent's Products;

WHEREAS, Dealer represents that it has or will acquire the service capabilities necessary to meet Lucent's quality standards for design, installation, and provision of warranty and maintenance on-site services for Lucent Products, if Dealer opts to provide such services;

WHEREAS, Lucent has relied upon these Dealer representations and forecasts as the basis for granting Dealer the right to market its Lucent Products in the Area;

NOW, THEREFORE, Lucent and Dealer hereby agree as follows:

1.0 DEFINITIONS

For the purposes of this Agreement, the following terms and their definitions shall apply:

1.1 "Area" means the specific geographic area in which Dealer has agreed to market Lucent Products in accordance with this Agreement. The specific geographic areas that comprise the Area are identified by city, state, county and zip code or other appropriate description in Appendix: Area.

1.2 "Dealer Service" means one or more of those services Dealer may choose to perform itself for Lucent Products in the Area. Dealer Services include system configuration to the End User, installation, warranty, and provision of post-warranty on-site maintenance.

1.3 "End User" means a third party to whom Dealer markets or sells Lucent Products within the Area for use by such third party in the ordinary course of its business and not for resale; End User does not include any Lucent BCS Global Account or any office, department, agency, or defense installation of the United States Government except as allowed for in separate agreements with Lucent Technologies.

1.4 "Lucent Product" means an item of Lucent equipment model in an Appendix to this Agreement that Dealer has purchased directly from Lucent through its BCS Distribution Development and Management group or an order source within Lucent designated by the BCS Distribution Development and Management group (collectively, "DDM") and that carries the standard Lucent warranty when resold to an End User. Each Lucent Product consists of one or more Product Components. The set of Product Components that may be used to equip a Lucent Product is determined solely by Lucent, which has the right to reject any order placed by Dealer that does not reflect rational complete Lucent Products or reasonable inventory requirements.

1.5 "Lucent Service" means one or more of those services provided by Lucent that Dealer may choose to resell as a Lucent Service Sales Agent, including system configuration, installation, provision of post-warranty and on-site and remote maintenance service, and Professional Services. Lucent Service also includes post-warranty remote maintenance service separate from post-warranty on-site maintenance service, which Dealer may offer in conjunction with Dealer Service. Lucent Services, including the prices at which they may be offered to end users and the commissions payable on their sale, and the price at which Lucent will provide remote maintenance service as a subcontractor for Dealer Service are described and identified in the ARS Operational Guide.

1.6 "Product Component" means an item of equipment identified by a Lucent equipment price element code or material code. To the extent that a

Product Component contains or consists of any firmware or software, an End User shall have the right to use such firmware or software in accordance with Section 15.0.

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1.7 "Software" means any computer program that is composed of routines, subroutines, instructions, processes, algorithms, and like ideas or know-how, owned by or licensed to Lucent and or one or more of its suppliers, regardless of the medium of delivery, including revisions, patches and updates of the same.

1.8 "Territory" means the United States of America, including the District of Columbia but excluding 1) the Commonwealth of Puerto Rico and all other territories, protectorates and possessions of the United States of America, and 2) the geographical areas defined as the "Primary Area of Responsibility" for Cincinnati Bell Telecommunication Services Inc. (the operating area of Cincinnati Bell Telephone Company in the states of Ohio, Indiana and Kentucky), and Progressive Communications of Hawaii, Inc. (the state of Hawaii).

2.0 DEALER APPOINTMENT

2.1 Lucent hereby appoints Dealer, and Dealer hereby accepts an appointment, to be an authorized Lucent Dealer for the limited purpose of marketing and selling the Lucent Product listed in the Appendix to End Users within the Area and the Territory in accordance with the terms and conditions of this Agreement. Dealer's authorized marketing location (s) and shipping location (s) are set forth in the Appendix. Lucent's appointment of Dealer is predicated on Dealer's agreement to market the Lucent Product in the Area and to achieve the Area forecast submitted pursuant to Section 11.0 of this Agreement. Lucent Products installed outside the Area will not be considered by Lucent when determining whether Dealer has achieved its Area forecast submitted pursuant to Section 11 of this Agreement. Dealer's sales of Lucent Product Components outside the Area (unless specifically permitted by this Section 2. 1), Dealer's failure to limit its marketing efforts and sales of Lucent Product Components to authorized locations or authorized End-Users, or Dealer's failure to achieve levels of sales acceptable to Lucent in the Area shall, among others, be grounds for termination or nonrenewal of this Agreement.

2.2 Dealer's sales of Lucent Products and Lucent Product Components to other resellers shall be grounds for termination or nonrenewal of this Agreement. Dealer agrees that it has no exclusive right to market the Lucent Products set forth in the Appendix hereto in the Area or Territory, and that no franchise is granted to Dealer herein. No payment of any fee or equivalent charge is required of Dealer by Lucent as a condition of this Agreement.

2.3 Lucent expressly reserves both the right to contract with others to market Lucent Products in the Territory and the Area and to itself directly engage in such marketing.

2.4 The relationship of the parties under this Agreement shall be, and shall at all times remain, one of independent contractors and not that of franchiser and franchisee, joint venturers, or principal and agent. Neither party shall have any authority to assume or create obligations on the other's behalf with respect to Lucent Products, and neither party shall take any action that has the effect of creating the appearance of its having such authority.

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2.5 All persons furnished by Dealer shall be considered solely Dealer's employees, and Dealer shall be solely responsible for payment of all their unemployment, Social Security and other payroll taxes including contributions from Dealer when required by law.

2.6 Dealer may market Lucent Products only from the authorized marketing locations set forth in the Appendix. During the term of this Agreement, no new or additional Dealer marketing location(s) may be established in or outside of the Area to market Lucent Products without prior written authorization from Lucent.

2.7 Dealer may not market or sell Lucent Products to any Lucent BCS Global Account, or any office, department, agency, or defense installation of the United States Government except as allowed for in a separate agreement with Lucent, and will use its best efforts to ensure that Dealer does not market to present direct customers of Lucent who are under warranty or with existing maintenance contracts for Lucent products or to any entity that is considering a proposal from Lucent for products or maintenance services, except that Dealer may respond to a request directed to Dealer for a competitive bid, proposal, or quotation even if Lucent is also responding.

3.0 DEALER RESPONSIBILITIES

3.1 Dealer has previously submitted to Lucent an "Authorized Dealer Application". Dealer certifies and warrants that, to the best of its knowledge, such information is current, accurate, complete and not misleading. Dealer also agrees during the term of this Agreement to notify Lucent immediately in writing and describe in detail any significant or material change in such information.

3.2 Dealer agrees to devote its best efforts to promote and market Lucent Products to End-Users within the Area. Dealer also warrants that it will conduct its business in a manner that reflects favorably on the quality image of Lucent Products and on the good name, goodwill or

reputation of Lucent and will not employ deceptive, misleading or unethical practices that are or might be detrimental to Lucent or its Products.

3.3 Dealer shall not purchase or otherwise obtain Lucent Products for resale from any source other than DDM unless a Lucent Product is not available from BCS on a timely basis, in which case Dealer may purchase that Lucent Product from the Lucent Catalogs, provided that such purchases are only to meet a specific customer need. Unless agreed to in writing as stated in Section 3 1.0, Dealer's purchase or resale of an unused product originally manufactured by Lucent that, if purchased from DDM, would be a Lucent Product under this Agreement, shall be grounds for termination of this Agreement as stated in Section 21.2.

3.4 Dealer shall provide and consistently maintain a staff of adequately trained and competent sales personnel, knowledgeable of the specifications, features and advantages of the Lucent Products. Such personnel shall be made aware of the restrictions on use of Lucent's Information as set forth in Section 14.0. All marketing or Lucent Product training requested by the Dealer and offered by Lucent, will be furnished to Dealer at Lucent's standard rates, terms and conditions.

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3.5 If Dealer chooses to provide Dealer Service, Dealer shall provide and consistently maintain a staff of services personnel, trained on the Lucent Products to Lucent's specifications. Such personnel shall be made aware of the restrictions on use of Lucent's Information as set forth in Section 14.0. All services training that Lucent requires Dealer personnel to undergo, or other services training requested by the Dealer and offered by Lucent, will be furnished to Dealer at Lucent's standard rates, terms and conditions. If Dealer has subcontracted with Lucent to perform all or part of Dealer Service to an End User and Dealer installs unused product (s) manufactured by Lucent but not purchased from DDM as part of that End User's system, in addition to any other remedies available to Lucent, Lucent may terminate any Dealer licenses to use Lucent maintenance software and may also terminate its subcontracts with Dealer to perform Dealer Service. If Dealer has sold a Lucent Product and a Lucent Post-Warranty Maintenance service contract to an End User, Dealer will advise such End User that addition of unused product (s) to the Lucent Product system may void Lucent's warranty and cause Lucent to terminate the service contract.

3.6 Dealer agrees to purchase and maintain a working Lucent system either as a demonstration model or as Dealer's primary telecommunications system at each of Dealer's principal marketing locations.

3.7 n/a

3.8 Dealer shall inform End Users of the Services available from Dealer.

3.9 Dealer shall report promptly to Lucent all known or suspected Lucent Product defects or safety problems and keep Lucent informed of End User complaints with respect to Lucent Products or Services.

3.10 Dealer shall provide Lucent reasonable access to Dealer's premises during normal business hours to inspect and verify Dealer performance of its obligations under this Agreement, including the right to inspect and audit Dealer's records relating to Lucent Product transactions in and out of Dealer's Area, Dealer's purchases and sales of unused products, Distribution Functions and Dealer Services.

3.11 Dealer shall comply with all applicable requirements of federal, state and local laws, ordinances, administrative rules and regulations, including, by way of illustration and not limitation, all requirements of Part 68 of the Federal Communication Commission's (FCC) Rules and Regulations and the Federal Export Administration Act of 1969, 50 U.S.C. app. Sections 2401-2414.

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3.12 To ensure timely delivery to End Users, Dealer shall maintain, subject to availability from Lucent, an adequate inventory of Lucent Products. Upon request, Dealer shall make available to Lucent the status of Dealer's current inventory of Lucent Product Components.

3.13 Dealer shall have the capability of providing End Users reasonable financing alternatives to facilitate the procurement of Lucent Products and Dealer Services. Dealer shall furnish evidence of such capability to Lucent upon request.

3.14

a. To ensure fulfillment of Lucent's Product and Software warranties to End Users, to ensure End User safety, to ensure End Users receive the latest information concerning the use of Lucent Products and enhancements thereto, to maintain End User satisfaction, and to assist Lucent in tracking equipment maintenance obligations and materiel accountability, Dealer agrees to maintain and make available to Lucent on reasonable request an accurate and complete list of Dealer's Lucent Product and Software End Users by name, installation address, the Lucent Product Components furnished to each End User, the transaction date, and (for End Users who elect to install their own systems only), all serial numbers associated with the new Lucent Products, Software or new Lucent Product Components. The obligation to maintain and make such information available to Lucent shall survive expiration or termination of this Agreement.. Lucent will use this information solely for the purposes set forth in this Section 3.14.

b. If Lucent is to install the Products, Dealer shall give the information described in 3.14 a., above, to the Lucent Branch where the End User is located, in the agreed format, as soon as Dealer's order process is completed. This will enable the customer to receive the Lucent Warranty on the new Lucent Products and Software, and if the customer has a Post Warranty Maintenance contract and has like products, the new Lucent Products will automatically be added to that contract when the Warranty expires.

3.15 Dealer shall keep accurate accounts, books and records relating to the business of Dealer with respect to Lucent Products and Dealer Services in accordance with generally accepted commercial and business accounting principles and practices that are sufficient for Lucent to ascertain Dealer's compliance with its obligations under this Agreement.

3.16 Dealer agrees to participate in Lucent's Customer Satisfaction Surveys. Lucent may conduct performance reviews of all Dealer responsibilities.

3.17 By the fifth (5th) business day of each month, in a format to be provided by Lucent to Dealer, Dealer will submit a point-of-sale report of sales made the previous month, by ZIP code, year, month, Pocode, quantity.

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4.0 INSTALLATION, WARRANTY AND POST-WARRANTY SERVICES

4.1 Lucent agrees to furnish any Lucent Services required by End Users purchasing Lucent Products from Dealer, as Dealer requests, until Dealer's installation and maintenance personnel have completed training to the satisfaction of Lucent. During such interim period, Dealer agrees to propose Lucent, and only Lucent, Services in connection with each End User purchase of Lucent Products under this Agreement, and Dealer will apply for appointment as a Lucent Service Sales Agent. Connection of unused product (s) manufactured by Lucent to the Lucent Product system may void Lucent's warranty to such End User and cause Lucent to terminate the Lucent Services contract with such End User.

4.2 After such training has been completed, Services may be furnished by the Dealer for Lucent Products under this Agreement, as required by End Users purchasing such Lucent Products. To ensure Dealer provision of high quality Services to End Users, Dealer shall: (i) perform Services directly and not through a non-Lucent independent contractor or agent except with Lucent's specific permission; and (ii) perform such Services competently and in accordance with any applicable Lucent standards. The indemnity obligations of Dealer under Section 19.1 shall apply to any Services furnished by Dealer to End-Users. If Dealer desires to have Lucent perform certain Services for Dealer's End Users, Dealer may

continue to function as a Lucent Service Sales Agent.

4.3 Lucent's appointment of Dealer to market Lucent Products hereunder is predicated on Dealer's agreement that it will hold itself out as authorized by Lucent to provide Services only as to Lucent Products hereunder and will, to the sole satisfaction of Lucent, clearly distinguish its authorization to provide Services for such Lucent Products and its lack of authorization to provide Services for other Lucent-manufactured equipment, unless such authorization is provided by written agreement with Lucent. Dealer also agrees to inform End Users of such distinction in Dealer's marketing (including brochures or other printed or written materials) of Lucent Products and of any other Lucent equipment. In addition to any other events of termination set forth in this Agreement, Dealer's failure to distinguish between its authorization to offer Services as to Lucent Products and its lack of authorization to offer Services as to other Lucent equipment or to inform End Users of such distinction shall entitle Lucent to terminate this Agreement upon written notice to Dealer.

5 Dealer may incorporate Lucent's remote maintenance support features in its Services Offers to End-Users. Lucent will serve as Dealer's subcontractor for such remote maintenance. NO LICENSE IS GRANTED, AND NO TITLE OR OTHER OWNERSHIP RIGHTS IN LUCENT'S INTELLECTUAL PROPERTY RELATED TO LUCENT'S PROVISION OF REMOTE MAINTENANCE SUPPORT SHALL PASS TO DEALER UNDER THIS AGREEMENT OR AS A RESULT OF ANY PERFORMANCE HEREUNDER. Dealer agrees to provide Lucent with accurate information on End User port capacity, software attachments, and other information required in order for Lucent to invoice Dealer accurately for such remote support. Failure to provide such accurate information or to update it on a timely basis shall entitle Lucent to terminate this Agreement upon written notice to Dealer. Except as

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agreed to in writing as stated in Section 3 1.0, connection of unused product (s) manufactured by Lucent but not purchased from DDM as part of an End User's system may, in addition to any other remedies available to Lucent, permit Lucent to terminate any Dealer licenses to use Lucent maintenance software and also terminate its subcontract (s) with Dealer to perform Dealer Service.

5.0 DEALER ORDERS

5.1 Orders for Lucent Products submitted by Dealer shall refer to this Agreement's identification number and shall contain the information necessary for proper delivery and invoicing of Product Components including, without limitation, the date of the order, a description of and the price element code for Product Components to be furnished and any shipping instructions. All orders submitted by Dealer shall be deemed to incorporate and are subject to the terms and conditions of this Agreement

as well as any supplemental terms and conditions agreed to in a writing signed by the authorized representatives of both parties. All other terms and conditions contained on any order form or correspondence originated by Dealer are rejected and shall have no effect. Lucent may require that Product Components be ordered only in factory-packed quantities or in minimum order amounts. Lucent reserves the right to reject any order or portion thereof, which right will not be exercised unreasonably..

5.2 Lucent will ship Lucent Products ordered by Dealer only to the authorized shipping location(s) within the Area specified in the Appendix: Addresses, or only if Lucent is installing the Products, to the premises of an End User within the Area.

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6.0 DEALER CANCELLATION OF ORDERS

Dealer may, upon prior written notice to Lucent, cancel any order or portion thereof except with respect to Lucent Product that have already been delivered by Lucent to a carrier for shipment to Dealer. Dealer agrees to pay to Lucent, upon any such cancellation, a liquidated amount equal to fifteen percent (15%), if the canceled order is not for a configured system or systems, or twenty percent (20%), if the canceled order is for a configured system or systems, of the purchase price of the canceled portion of the order to compensate Lucent for its costs and expenses associated with such cancellation. If an order is delayed or suspended for more than two months at the request of, or for reasons attributable to, Dealer, such order shall be considered as having been canceled and will be subject to the cancellation charges set forth in this Section.

7.0 PRODUCT, PRODUCT COMPONENTS AND SOFTWARE LICENSE CHANGES

7.1 Lucent may without the consent of Dealer, but with thirty (30) days advance written notice to Dealer, delete any Lucent Product from the Appendix.

7.2 Lucent may, at any time without advising Dealer, make changes in the Lucent Products or modify the drawings and specifications relating thereto, or substitute Lucent Products of later design to fill an order, provided the changes, modifications or substitutions under normal and proper use do not adversely impact upon form, fit or function or are recommended by Lucent to enhance safety. Lucent may, at any time with ten days advance written notice to Dealer, change the terms of its End User Software License.

8.0 ARS DEALER PRICES AND DISCOUNTS

8.1 The prices applicable to Dealer orders requesting shipment within Lucent's then current Lucent Product shipment intervals shall be determined in accordance with: (i) Lucent's Dealer List prices in effect on the date an order is accepted by Lucent (i.e., the date it is entered in Lucent's order processing system); (ii) the ARS discount schedule in effect on the date the order is accepted by Lucent; and (iii) the provisions of this Section 8.0. Lucent's ARS discount and rebate schedules are contained in the ARS Operational Guide. Dealer orders requesting delayed shipment (i.e., shipment on dates beyond Lucent's then current Lucent Product shipment intervals) shall be subject to price increases and discount decreases that become effective before shipment.

8.2 The discount applicable to Dealer orders placed, and not subsequently canceled, during the term of this Agreement and any subsequent term of a substantially similar Agreement, will be determined based on the then effective discount schedule and the actual dollar value, based on Dealer List Prices, of all orders placed and not subsequently canceled during the immediately preceding quarter. The otherwise applicable discount percentage will be reduced by an amount set forth in the then effective discount schedule for the quarter following any quarter

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in which Lucent learns of Lucent Product sales by Dealer not in conformance with the terms of Section 2.1 of this Agreement.

8.3 Lucent may verify or audit Dealer's Lucent Product and Lucent Product Component sales records or rebate calculations and request copies of invoices, shipping documents, payment records and the like in connection with such audits, which requests will not be unreasonably refused.

9.0 DEALER PRICE LIST AND ARS DISCOUNT CHANGES

9.1 Lucent may decrease Dealer list prices or increase discounts or rebates in the ARS discount or rebate schedules without advance notice to or the consent of Dealer. Lucent agrees to provide written notice of any such price or discount changes and the effective date thereof. Lucent agrees to provide to Dealer on previously ordered Lucent Products either a) a recomputation of the amounts payable for all orders accepted by Lucent within sixty (60) days prior to the effective date of the applicable price decrease or discount increase, or b) a recomputation of Dealer charges based on actual inventory held by Dealer at Dealer's authorized shipping location on the date Dealer receives notification of the applicable price decrease or discount increase, whichever is greater. Lucent reserves the right to audit associated inventory levels. The difference between the recomputed amounts and previously invoiced amounts will be reflected as a credit to Dealer's account. Lucent also may institute promotional price decreases or discount increases at any time under such terms and conditions as Lucent in its sole discretion shall determine are appropriate.

Promotional prices and discounts shall apply only during the period specified by Lucent and there shall be no recomputation of amounts payable by Dealer for orders placed prior to such period.

9.2 Lucent may, without the prior consent of Dealer, increase Dealer list prices or decrease discounts or rebates in the Dealer discount or rebate schedules provided Lucent furnishes Dealer written notice of any such changes thirty (30) days in advance of the effective date.

9.3 Unless expressly stated to the contrary, Dealer list prices do not include taxes or Lucent's charges for related domestic transportation or storage services. Lucent's Dealer list prices do include its standard packing for domestic shipment. All Lucent Product prices are F.O.B. Lucent's shipping point. Unless Dealer furnishes Lucent a valid tax exemption certificate, Dealer shall pay all applicable taxes, however designated, resulting from this Agreement or any activities hereunder (exclusive of any tax based on or measured by net income).

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10.0 LUCENT BILLING AND DEALER PAYMENT

Invoices for Lucent Products will be sent by Lucent upon shipment, or as soon thereafter as practicable. Unless Dealer is otherwise notified by Lucent in writing, Dealer shall pay the invoiced amount in full on receipt of Lucent's invoice. Payments not received within thirty (30) days of the invoice date may, at Lucent's option, incur a late payment charge that shall be computed at the rate of one and one-half percent (1-1/2%) of the overdue amount per month or the maximum lawful rate, whichever is lower. The amount of Dealer credit or terms of payment may be changed or credit withdrawn by Lucent at any time upon notice to Dealer in writing, unless Dealer provides Lucent with adequate assurance of performance, as that phrase is used in Section 2-609 of the Uniform Commercial Code as adopted in Delaware within ten days of any such written notice.

11.0 DEALER FORECAST AND REPORTS

11.1 Upon execution of this Agreement, Dealer shall submit to Lucent a forecast of total Lucent Product orders to be placed by Dealer during the contract term. The forecast must specify, for each quarter, the total dollar order volume (based on Dealer Price List prices) to be ordered. In the event of price increases or discount decreases, as described in Section 9.2 hereof, Dealer may amend its current forecast within 30 days of the receipt of written notice of such price changes.

11.2 Lucent may reject any forecast submitted by Dealer if, in Lucent's sole judgment, such forecast does not project either: (1) the level of Lucent Product orders Lucent reasonably requires of Dealer to

achieve its marketing objectives in the Area; or (2) a realistic assessment of Dealer's potential successful marketing opportunities in the Area during the forecast period. Lucent shall notify Dealer in writing within thirty (30) days of receipt of Dealer's forecast if Lucent has rejected such forecast or it will be deemed to have been accepted by Lucent.

11.3 Dealer shall submit the forecast of Lucent Product orders in a format specified by Lucent.

12.0 TITLE AND RISK OF LOSS

12.1 Title (except for firmware and software) and risk of loss or damage to Lucent Products shall pass to Dealer: (i) at the time Lucent or its supplier delivers possession of the Lucent Products to a carrier; or (ii) if there is no carrier, at the time Dealer takes possession of the Lucent Products at Lucent's or its supplier's plant or warehouse or other facility. Claims for shortages or for merchandise damaged during shipment must be filed with the freight carrier by Dealer. Lucent will cooperate with Dealer but will not assume responsibility for the processing or collection of claims. Dealer may make no deductions from invoices for claims against a carrier.

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12.2 TO BE EFFECTIVE, DEALER REJECTION OR REVOCATION OF ACCEPTANCE OF NONCONFORMING GOODS MUST BE MADE BY WRITTEN NOTICE TO LUCENT WITHIN TEN (10) DAYS AFTER DELIVERY. LUCENT PRODUCTS REJECTED OR NOT ACCEPTED BY DEALER MUST BE RETURNED WITHIN THIRTY (30) DAYS IN THEIR ORIGINAL PACKAGING IN ACCORDANCE WITH LUCENT'S INSTRUCTIONS. A restocking charge in the amount of twenty percent (20%) of the purchase price will apply to returns, accepted by Lucent, of products ordered in error by Dealer.

13.0 INSURANCE

Dealer shall maintain, during the term of this Agreement, all insurance and bonds required by any applicable law, including but not limited to: (1) workers' compensation insurance as prescribed by the laws of all states in which work pursuant to this Agreement is performed; (2) employer's liability insurance with limits of at least \$1 million per occurrence; and (3) comprehensive personal liability insurance coverage (including products liability coverage and comprehensive automobile liability coverage) with limits of at least \$1 million for bodily injury, including injury to any one person and \$1 million on account of any single occurrence, and \$1 million for each occurrence of property damage, or in lieu of such limits, bodily injury and property damage liability insurance (including products liability and comprehensive automobile coverage) with a combined single limit of at least \$2 million per occurrence. Dealer shall name Lucent as an Additional Insured on all such policies.. Upon request of

Lucent, Dealer shall furnish adequate proof of such insurance.

14.0 USE OF INFORMATION

All technical and business information, Dealer List prices, ARS discounts or rebates, and trade secrets in any form, furnished to Dealer under or in contemplation of this Agreement and identified as or known by Dealer to be proprietary to Lucent (all hereinafter designated "Information") shall remain the property of Lucent. Unless Lucent otherwise expressly agrees in writing, such Information: (i) shall be treated in confidence by Dealer and used by Dealer only for the purposes of performing Dealer's obligations under this Agreement; (ii) shall not be disclosed to anyone, except to employees of Dealer and End Users to whom such disclosure is necessary to the use for which rights are granted hereunder; (iii) shall not be reproduced or copied in whole or in part, except as necessary for use as authorized in this Agreement; and (iv) shall, together with any copies thereof, be returned, be destroyed or, if recorded on an erasable storage medium, be erased when no longer needed or when this Agreement terminates, whichever occurs first. Any copies made as authorized herein shall contain the same copyright notice or proprietary notice or both that appear on the Information copied. The above conditions do not apply to any part of the Information (i) which is or becomes known to the receiving party or its affiliates free of any obligation to keep same in confidence; (ii) which is or becomes generally available to the public without breach of this Agreement; or (iii) which is developed by the receiving party or its affiliates. The obligation of confidentiality and restrictions on use of Information shall exist for a period of (i) five (5) years after the termination of this Agreement, or (ii) ten (10) years after the receipt of such Information, whichever is longer.

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All technical and business information and trade secrets in any form, furnished to Lucent under or in contemplation of this Agreement and identified as or known by Lucent to be proprietary to Dealer (all hereinafter designated "Information") shall remain the property of Dealer. Unless Dealer otherwise expressly agrees in writing, such Information: (i) shall be treated in confidence by Lucent and used by Lucent only for the purposes of performing Lucent's obligations under this Agreement; (ii) shall not be disclosed to anyone, except to employees of Lucent and End Users to whom such disclosure is necessary to the use for which rights are granted hereunder; (iii) shall not be reproduced or copied in whole or in part, except as necessary for use as authorized in this Agreement; and (iv) shall, together with any copies thereof, be returned, be destroyed or, if recorded on an erasable storage medium, be erased when no longer needed or when this Agreement terminates, whichever occurs first. Any copies made as authorized herein shall contain the same copyright notice or proprietary notice or both that appear on the Information copied. The above conditions do not apply to any part of the Information (i) which is or becomes known

to the receiving party or its affiliates free of any obligation to keep same in confidence; (ii) which is or becomes generally available to the public without breach of this Agreement; or (iii) which is developed by the receiving party or its affiliates. The obligation of confidentiality and restrictions on use of Information shall exist for a period of (i) five (5) years after the termination of this Agreement, or (ii) ten (10) years after the receipt of such Information, whichever is longer.

15.0 LICENSE

15.1 Upon delivery of Lucent Product firmware and software to Dealer, Lucent grants to Dealer a personal and non-exclusive right to use such licensed materials ("Licensed Materials") in the Area and Territory solely to fulfill its duties and obligations under this Agreement. NO TITLE OR OTHER OWNERSHIP RIGHTS IN INTELLECTUAL PROPERTY OR OTHERWISE IN THE LICENSED MATERIAL OR ANY COPY THEREOF SHALL PASS TO DEALER UNDER THIS AGREEMENT OR AS A RESULT OF ANY PERFORMANCE HEREUNDER.

15.2 Dealer agrees: (i) to make only those copies of Software necessary for its use under this Agreement and assure that such copies contain any proprietary or copyright notice appearing on the Software being copied; (ii) not to reverse engineer, decompile or disassemble the Licensed Materials or otherwise attempt to learn the source code, structure, algorithms or ideas underlying the Licensed Materials; (iii) not to export the Licensed Materials out of the Territory, and (iv) not to use the Software directly for any third person or permit any third person to use the Software except as necessary under this Agreement.

15.3 Lucent further grants to Dealer the right to furnish Licensed Materials to End Users coincident with the sale of Lucent Products utilizing such Licensed Materials, provided, however, that unless the Licensed Materials come with a limited use license, which may be in the form of a shrink-wrap (break-the-seal) agreement, provided by Lucent, Dealer obtains agreement

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in writing from the End User, before or at the time of furnishing each copy of Licensed Materials, in the form set forth in an Appendix to this Agreement.

16.0 TRADEMARKS

16.1 Lucent grants Dealer permission to utilize certain Lucent designated trademarks, insignia, and symbols ("Marks") in Dealer's advertising and promotion of Lucent Products furnished hereunder, provided such use conforms to Lucent's standards and guidelines. Dealer shall not do business under any Mark or any derivative or variation thereof, and Dealer

shall not directly or indirectly hold itself out as having any relationship to Lucent or its affiliates other than as an "Authorized Lucent ARS Dealer" or other Lucent approved term. Except as provided in Section 22.2.2, Marks may only be used by Dealer to advertise and promote the Lucent Products during the term of this Agreement. Marks are not to be used by Dealer in any way to imply Lucent's endorsement of products, licensed materials or services not furnished hereunder, such as used or unused products originally manufactured by Lucent. Except as agreed in writing as stated in Section 3 1.0 Marks are not to be used by Dealer in advertising or marketing materials, including print, radio, television, broadcast facsimile, telemarketing or Internet websites, that reach End User prospective customers outside Dealer's Area. Such uses of Marks will be cause for immediate termination of this Agreement. Dealer will not alter or remove any Mark applied to Lucent Products without the prior written approval of Lucent. Nothing in this Agreement creates in Dealer and Dealer agrees not to assert, any rights in the Marks.,

16.2 All Dealer-initiated advertisements or promotions using Marks or any reference thereto, whether under a promotional allowance program or otherwise, shall receive to prepublication review and approval by Lucent with respect to, but not limited to context, style, appearance, composition, timing and media.

16.3 This Agreement does not give Dealer any rights to use the logo or trademark of AT&T Corp. Such rights cannot be obtained under this Agreement or any other Agreement with Lucent Technologies Inc.

17.0 PRODUCT WARRANTY

17.1 Dealer may, but is not required to, provide warranties and remedies in addition to but not less than the warranties and remedies set forth in Section 17.2. Dealer shall inform the End User of Lucent's Limitation of Liability as set forth in Section 18 of this Agreement, in a reasonable manner. Lucent hereby warrants to Dealer the title of the Lucent Products purchased under this Agreement. This warranty of title is the only warranty provided to Dealer.

17.2 Dealer shall, before or at the time of delivery of Lucent Products, advise an End User of the following:

(i) that the Lucent Products may contain remanufactured parts that are equivalent to new in performance and appearance;

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(ii) that there is a toll fraud exclusion in Lucent's warranty, with a specific reference to the words of that exclusion and an explanation of the meaning of those words;

(iii) that the Lucent Products are warranted by Lucent to End User on the Delivery or In-Service Date, whichever is applicable, and for a period of one (1) year thereafter to operate in accordance with Lucent's standard published specifications and if any Lucent Products are not operational during the warranty period, that the End User shall notify the Dealer who at its option will replace or repair those Lucent Products without charge. Replaced Lucent Products become the property of Dealer; and upon their return to Lucent by Dealer, Lucent will replace or repair those Lucent Products at no charge to the Dealer or issue a credit to the account of the Dealer;

(iv) THAT LUCENT AND ITS AFFILIATES AND SUPPLIERS MAKE NO OTHER WARRANTIES EXPRESS OR IMPLIED AND SPECIFICALLY DISCLAIM ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE.

17.3 EXCEPT FOR THE WARRANTY OF TITLE TO DEALER AND THE LIMITED PRODUCT WARRANTY TO DEALER'S END USERS REFERENCED IN THIS SECTION, LUCENT, ITS AFFILIATES AND SUPPLIERS MAKE NO , WARRANTIES EXPRESS OR IMPLIED AND SPECIFICALLY DISCLAIM ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE.

17.4 The indemnity obligations of Dealer under Section 19.1 shall apply to Dealer's provision of End User warranty assistance services and to any failure to refer to and explain the toll fraud exclusion to an End User.

18.0 LIMITATION OF LIABILITY

EXCEPT FOR PERSONAL INJURY AND EXCEPT FOR THE LIABILITY EXPRESSLY ASSUMED BY LUCENT UNDER SECTIONS 19 AND 20 OF THIS AGREEMENT, THE LIABILITY OF LUCENT AND ITS PARENT OR AFFILIATES FOR ANY CLAIMS, LOSSES, DAMAGES OR EXPENSES FROM ANY CAUSE WHATSOEVER (INCLUDING CLAIMS OF INFRINGEMENT AND ACTS OR OMISSIONS OF THIRD PARTIES) REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT OR OTHERWISE, SHALL NOT EXCEED THE LESSER OF THE DIRECT DAMAGES PROVEN OR THE REPAIR, REPLACEMENT COSTS (INCLUDING THE COSTS OF COVER) OR PURCHASE PRICE OF THE PRODUCTS OR SERVICE THAT DIRECTLY GIVES RISE TO THE CLAIM. IN NO EVENT SHALL LUCENT OR ITS PARENT OR AFFILIATES BE LIABLE TO DEALER OR TO ANY OTHER COMPANY OR ENTITY FOR ANY INCIDENTAL, RELIANCE, CONSEQUENTIAL OR ANY OTHER INDIRECT LOSS OR DAMAGE (INCLUDING LOST PROFITS OR REVENUES OR CHARGES FOR

COMMON CARRIER TELECOMMUNICATION SERVICES OR FACILITIES ACCESSED THROUGH OR CONNECTED TO PRODUCTS ["TOLL FRAUD"]) ARISING OUT OF THIS AGREEMENT. NO ACTION OR PROCEEDING AGAINST LUCENT MAY BE COMMENCED MORE THAN TWELVE (12) MONTHS AFTER THE CAUSE OF ACTION ACCRUES. THIS SECTION SHALL SURVIVE FAILURE OF AN EXCLUSIVE REMEDY.

EXCEPT FOR PERSONAL INJURY, THE LIABILITY OF DEALER AND ITS PARENT OR AFFILIATES FOR ANY CLAIMS, LOSSES, DAMAGES OR EXPENSES FROM ANY CAUSE WHATSOEVER (INCLUDING CLAIMS OF INFRINGEMENT AND ACTS OR OMISSIONS OF THIRD PARTIES) REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT OR OTHERWISE, SHALL NOT EXCEED THE LESSER OF THE DIRECT DAMAGES PROVEN OR THE REPAIR, REPLACEMENT COSTS (INCLUDING THE COSTS OF COVER) OR PURCHASE PRICE OF THE PRODUCTS OR SERVICE THAT DIRECTLY GIVES RISE TO THE CLAIM. IN NO EVENT SHALL DEALER OR ITS PARENT OR AFFILIATES BE LIABLE TO LUCENT OR TO ANY OTHER COMPANY OR ENTITY FOR ANY INCIDENTAL, RELIANCE, CONSEQUENTIAL OR ANY OTHER INDIRECT LOSS OR DAMAGE (INCLUDING LOST PROFITS OR REVENUES OR CHARGES FOR COMMON CARRIER TELECOMMUNICATION SERVICES OR FACILITIES ACCESSED THROUGH OR CONNECTED TO PRODUCTS ["TOLL FRAUD"]) ARISING OUT OF THIS AGREEMENT. NO ACTION OR PROCEEDING AGAINST DEALER MAY BE COMMENCED MORE THAN TWELVE (12) MONTHS AFTER THE CAUSE OF ACTION ACCRUES. THIS SECTION SHALL SURVIVE FAILURE OF AN EXCLUSIVE REMEDY.

19.0 INDEMNITY

19.1 Dealer will indemnify Lucent for the full amount of any settlement or final judgment that arises out of a claim or suit by a third party to the extent that such claim or suit is based on strict tort liability, breach of a warranty provided by Dealer, or the intentional or negligent acts or omissions of Dealer. Dealer's obligation to indemnify Lucent will be reduced in proportion to which the settlement or final judgment is attributable to the strict tort liability of Lucent, breach of a Lucent warranty, or the intentional or negligent acts or omissions of Lucent, unless liability for such acts or omissions of Lucent is otherwise excluded in other sections of this Agreement, or the negligent acts or omissions of any other third party not under Dealer's direct control. Dealer's obligation to indemnify Lucent shall be contingent upon: (1) Lucent promptly notifying Dealer in writing of the existence of any claim or suit that may result in a settlement or judgment for which Dealer may be obligated to indemnify Lucent; (2) Lucent giving Dealer full opportunity and authority to assume sole responsibility to settle and defend any such claim or suit; and (3) Lucent furnishing to Dealer upon reasonable request all information and assistance that Dealer deems to be reasonably required to settle or defend such claim or suit. These indemnities are in lieu of all other obligations of Dealer, express or implied, in law or in equity, to indemnify Lucent for claims or suits covered by this section. Dealer's liability to indemnify Lucent shall in no event exceed \$500,000.

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19.2 Unless Lucent's liability is otherwise limited or excluded in other sections of this Agreement, Lucent will indemnify Dealer for the full amount of any settlement or final judgment that arises out of a claim or suit by a third party to the extent that such claim or suit is based on the strict tort liability of Lucent, breach of a Lucent warranty, or the intentional or negligent acts or omissions of Lucent. Lucent's obligation

to indemnify Dealer shall be reduced in proportion to which the settlement or final judgment is attributable to the strict tort liability of Dealer, breach of a Dealer warranty, or the intentional or negligent acts or omissions of Dealer or any other third party not under Lucent's direct control. Lucent's obligation to indemnify Dealer will be contingent upon: (1) Dealer promptly notifying Lucent in writing of the existence of any claim or suit that may result in a settlement or final judgment for which Lucent may be obligated to indemnify Dealer; (2) Dealer giving Lucent full opportunity and authority to assume sole responsibility to settle or defend any such claim or suit; and (3) Dealer furnishing to Lucent upon reasonable request all information and assistance available to Dealer that Lucent deems to be reasonably required to settle or defend such claim or suit. THIS INDEMNITY IS IN LIEU OF ALL OTHER OBLIGATIONS OF LUCENT, EXPRESS OR IMPLIED, IN LAW OR IN EQUITY, TO INDEMNIFY DEALER FOR CLAIMS OR SUITS COVERED BY THIS SECTION. LUCENT'S LIABILITY TO INDEMNIFY DEALER SHALL IN NO EVENT EXCEED \$500,000.

19.3 The party electing to take responsibility for settling or defending any claim or suit covered by this Section 19.0 will be responsible for the attorney's fees and costs incurred by said party to settle or defend such claim or suit.

20.0 INFRINGEMENT

20.1 Lucent will defend or settle, at its own expense, any action brought against Dealer or an End User, to the extent that it is based on a claim that the normal use or sale of any Lucent Products provided under this Agreement infringe any United States patent, trademark or copyright, that any licensed materials provided under this Amendment infringe any United States copyright or violate the trade secret of a third party. Lucent will pay those costs, damages and attorneys' fees finally awarded against Dealer or an End User in any such action attributable to any such claim, but such defense, settlements and payments are conditioned on the following: (i) that Lucent shall be notified promptly in writing by Dealer or an End User of any such claim; (ii) that Lucent shall have sole control of the defense of any action on such claim and of all negotiations for its settlement or compromise; (iii) that Dealer or End User shall cooperate in a reasonable way to facilitate the settlement or defense of such claim, and that Dealer or End User has made no statement or taken any action that might hamper or undermine Lucent's defense or settlement; (iv) that such claim does not arise from modifications to Lucent Products or licensed materials not authorized by Lucent or from use or combination of the Lucent Products with software and/or apparatus or equipment not supplied or specified by Lucent; (v) that such claim does not arise from adherence to Dealer's or End User's instructions or the use of items, materials or information of Dealer's or End User's origin, design or selection; and (vi) that should Lucent Products or licensed materials become, or in Lucent's opinion, be likely to become, the subject of such claim of infringement, then Dealer or End User shall permit Lucent, at Lucent's option and

expense, either to: (1) procure for Dealer or End User the right to continue using the Lucent Products or licensed materials, or (2) replace or modify the same so that it is not subject to such claim and is functionally equivalent or (3) upon failure of (1) and (2) above despite the reasonable efforts of Lucent, remove the infringing Lucent Product or terminate Dealer's or End User's rights under the license and refund the purchase price or fee paid less a reasonable allowance for use, damage and obsolescence. In the event that a claim of infringement arises for which the liability of Lucent is excepted under (iv) or (v) above, Dealer or End User will defend and save Lucent harmless to the same extent and subject to the same limitations as apply to Lucent when Lucent is liable hereunder. This Section 20.0 states the entire liability of Lucent with respect to infringement by Lucent Products or licensed materials provided hereunder.

21.0 TERMINATION OF AGREEMENT

21.1 Dealer must give written notice to Lucent of its intent to renew ninety (90) days in advance of the termination date.

21.2 Lucent may terminate this Agreement upon thirty (30) days prior written notice to Dealer if. (i) Dealer markets or sells Lucent Products outside the Area except as specifically permitted in Section 1.1; (ii) Dealer fails to limit its marketing efforts to authorized locations or End-Users as defined in Section 1.3; (iii) Dealer materially fails to make reasonable commercial efforts to achieve levels of sales that comply with the Lucent Product forecasts for the Area submitted pursuant to Section 11.0; (iv) Dealer fails to provide an acceptable quality of service to End Users in accordance with Lucent's Quality Policy; (v) there occurs any material change in the management or control of Dealer; (vi) Dealer sold or attempted to resell Lucent Products to any third party other than an End User; (vii) Dealer appointed or attempted to appoint any unauthorized manufacturer's representatives for Lucent Products; (viii) Dealer purchased unused products manufactured by Lucent from a source other than DDM or sold or attempted to resell any unused products manufactured by Lucent that, if purchased through DDM, would be a Lucent Product under this Agreement; (ix) Dealer misrepresented, by statement or by omission, Dealer's authority to resell under this or any other written agreement with Lucent that is limited to specific Lucent products or services, by stating or implying, by use of a Lucent Mark otherwise, that the authority granted in this or such other agreement applies to any Lucent product or service not covered by this or such other agreement; or (x) Dealer failed to comply with Lucent's guidelines for the proper use of Lucent's Marks.

21.3 Except as otherwise provided in this Agreement, either party may terminate this Agreement upon thirty (30) days prior written notice if the other party has defaulted in the performance or has breached its obligations under this Agreement, and such breach or default remains uncured for a period of twenty (20) business days following receipt of

notice of such breach or default.

21.4 Lucent may terminate this Agreement upon twenty-four (24) hours written notice if Dealer has: (i) become insolvent, invoked as a debtor any laws relating to the relief of debtors'

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or creditors' rights, or has had such laws invoked against it; (ii) become involved in any liquidation or termination of its business; (iii) been involved in an assignment for the benefit of its creditors; (iv) remotely accessed PBX locations maintained by Lucent directly; or (v) activated software features without compensation to Lucent.

21.5 Dealer may terminate this Agreement on twenty-four (24) hours written notice if Lucent has: (i) become insolvent, invoked as a debtor any laws relating to the relief of debtors' or creditors' rights, or has had such laws invoked against it; or (ii) become involved in any liquidation or termination of its business; (iii) been involved in an assignment for the benefit of its creditors.

21.6 Notwithstanding such termination rights, each party reserves all of its legal rights and equitable remedies, including without limitation those under the Uniform Commercial Code.

21.7 Neither party shall be liable to the other on account of termination of this Agreement, either for compensation or for damages of any kind or character whatsoever, on account of the loss by Lucent or Dealer of present or prospective profits on sales or anticipated sales, good will, or expenditures, investments or commitments made in connection therewith or in connection with the establishment, development or maintenance of Dealer's business.

22.0 EFFECTS OF TERMINATION

22.1 Notwithstanding any other provisions of this Agreement, termination or expiration of this Agreement shall automatically accelerate the due date of all invoices for Lucent Products, such that they shall become immediately due and payable not later than the effective date of termination.

22.2 Upon termination or expiration of this Agreement, Dealer shall immediately:

22.2.1 provide Lucent with the first right to repurchase any Lucent Products in Dealer's possession or control and not already identified to an executed End User contract or outstanding proposal. The price Lucent shall pay to Dealer to repurchase Lucent Products shall be the price paid by Dealer. Dealer shall make such Lucent

Products available to Lucent within ten (10) business days of Lucent's notice to Dealer of its intent to exercise such right;

22.2.2 discontinue any and all use of Marks, including but not limited- to such use in advertising or business material of Dealer, except to identify the Lucent Products; provided that if Lucent does not repurchase Dealer's remaining inventory, Dealer may continue using Marks as authorized in this Agreement for an additional ninety (90) days for the limited purpose of marketing such inventory to End Users after termination is effective;

22.2.3 remove and return to Lucent or destroy at Lucent's request, any and all promotional materials supplied without charge by Lucent except those necessary for the limited purpose of marketing existing Dealer inventory pursuant to Section 22.2.2;

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22.2.4 return all Lucent proprietary Information, Licensed Materials and Software, except that which Lucent determines is necessary to operate and maintain previously furnished Lucent Products;

22.2.5 cease holding itself out, in any manner, as a Lucent authorized Dealer of the Lucent Products; and

22.2.6 notify and arrange for all publishers and others (including, but not limited to, publisher of telephone and business directories) who may identify, list or publish Dealer's name as a Lucent authorized Dealer of Lucent Products, to discontinue such listings.

23.0 SURVIVAL OF OBLIGATIONS

The respective obligations of Dealer and Lucent under this Agreement that by their nature would continue beyond the termination, cancellation or expiration of this Agreement, shall survive termination, cancellation or expiration hereof, such as, by way of example only, the obligations pursuant to the following Sections: USE OF INFORMATION, LICENSE, TERMINATION OF AGREEMENT, LIMITATION OF LIABILITY, INDEMNITY and TRADEMARKS.

24.0 FORCE MAJEURE

Except for Dealer's obligation to make timely payments, neither party shall be held responsible for any delay or failure in performance to the extent that such delay or failure is caused by fires, embargoes, explosions, labor disputes, government requirements, civil or military

authorities, acts of God, inability to secure raw materials or transportation facilities, acts or omissions of carriers or suppliers or any other causes beyond the parties' control whether or not similar to the foregoing.

25.0 SECURITY INTEREST

n/a

26.0 SEVERABILITY

If any section, or clause thereof, in this Agreement is held to be unenforceable, then the meaning of such section or clause will be construed so as to render it enforceable, to the extent feasible; and if no reasonable interpretation would save such section or clause, it will be severed from this Agreement and the remainder will remain in full force and effect. However, in the event such section or clause is considered an essential element of this Agreement by either Lucent or Dealer, the parties shall promptly negotiate a replacement therefor.

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27.0 ASSIGNMENT

Dealer shall not assign any right or interest under this Agreement or delegate any work or other obligation to be performed or owed by Dealer under this Agreement without the prior written consent of Lucent, which consent shall not be unreasonably withheld. Any assignment or delegation by Dealer without such consent shall be void and ineffective. By the provision of notice thereof in accordance with this Agreement, Lucent shall have the right to assign this Agreement and to assign its rights and delegate its obligations and liabilities under this Agreement, either in whole or in part (an "Assignment"), to any entity that is, or that was immediately preceding such Assignment, a current subsidiary, business unit, division or other affiliate of Lucent. The notice of Assignment shall state the effective date thereof. Upon the effective date and to the extent of the Assignment, Lucent shall be released and discharged from all obligations and liabilities under this Agreement. Such Assignment, release and discharge shall be complete and shall not be altered by the termination of the affiliation between Lucent and the entity assigned rights or delegated obligations and liabilities under this Agreement.

28.0 NON-WAIVER

No course of dealing, course of performance or failure of either party strictly to enforce any term, right or condition of this Agreement

shall be construed as a waiver of any term, right or condition.

29.0 CHOICE OF LAW AND DISPUTES

29.1 The construction, interpretation and performance of this Agreement shall be governed by the local laws of the State of Delaware.

29.2 Any controversy or claim, whether based on contract, tort, strict liability, fraud, misrepresentation, or any other legal theory, related directly or indirectly to this Agreement (the "Dispute") shall be resolved solely in accordance with the terms of this Section, except as set forth in paragraph 29.6 below.

29.3 If the Dispute cannot be settled by good faith negotiation between the parties, Lucent and Dealer will submit the Dispute to non-binding mediation. If complete agreement cannot be reached within thirty (30) days of submission to mediation, any remaining issues will be resolved by binding arbitration in accordance with paragraphs 28.4 and 28.5 below. The Federal Arbitration Act, 9 U.S.C. Sections 1 to 15, not state law, will govern the arbitrability of all Disputes.

29.4 A single arbitrator who is knowledgeable in the telecommunications products field or in commercial matters will conduct the arbitration. The arbitrator's decision and award will be final and binding and maybe entered in any court with jurisdiction. The arbitrator will not have authority to limit, expand or otherwise modify the terms of this Agreement.

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29.5 The mediation and, if necessary, the arbitration will be conducted under the then current rules of the alternate dispute resolution (ADR) firm selected by the parties, or if the parties are unable to agree on an ADR firm, the parties will conduct the mediation and, if necessary, the arbitration under the then current rules and supervision of the American Arbitration Association (AAA). Lucent and Dealer will each bear its own attorneys' fees associated with the mediation and, if necessary, the arbitration. Lucent and Dealer will pay all other costs and expenses of the mediation/arbitration as the rules of the selected ADR firm provide. The parties and their representatives shall hold the existence, content and result of the mediation and arbitration in confidence.

29.6 Unless both parties agree otherwise, Disputes relating to Dealer's compliance with Section 16 of this Agreement (Trademarks) shall be exempt from the dispute resolution processes described in this Section.

30.0 NOTICES

All notices under this Agreement shall be in writing and shall be given in person, by facsimile, by receipted courier or by certified U.S. mail, addressed to the addresses set forth at the beginning of this Agreement or to such other address as either party may designate by written notice to the other. All written notices sent by mail shall be sent first class or better, postage prepaid. All notices shall be deemed to have been given on the earlier of the date actually received or the fifth day after mailing.

31.0 ENTIRE AGREEMENT

The terms and conditions contained in this Agreement supersede all prior oral or written understandings between the parties and constitute the entire Agreement between them concerning the subject matter of this Agreement and shall not be contradicted, explained or supplemented by any course of dealing between Lucent or any of its affiliates and Dealer or any of its affiliates. This Agreement shall not be modified or amended except by a writing signed by an authorized representative of the party to be charged. An authorized representative is one who has authority to execute this Agreement or an assignee.

32.0 TERM

This Agreement shall be effective as of December 16, 1998-and shall have a term ending on December 31, 2001.

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IN WITNESS WHEREOF the parties have caused this Agreement to be signed by their duly authorized representatives.

Lucent Technologies Inc.

Farmstead Telephone Group, Inc.

By: /s/ James A. Albertini

By: /s/ George J. Taylor, Jr.

Name: James A. Albertini
Title: General Manager Remarketing
Date: 12/16/98

Name: George J. Taylor, Jr.
Title: Chairman and CEO
Date: 12/16/98

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Appendix:

1. Addresses:

a. Marketing Location:

22 Prestige Park Circle

East Hartford, CT 06108

b. Shipping Location:

22 Prestige Park Circle

East Hartford, CT 06108

2. Area authorized for ARS Dealer:

Area is the Territory as stated in Section 1.8. "Territory" means the United States of America, including the District of Columbia but excluding 1) the Commonwealth of Puerto Rico and all other territories, protectorates and possessions of the United States of America, and 2) the geographical areas defined as the "Primary Area of Responsibility" for Cincinnati Bell Telecommunication Services Inc. (the operating area of Cincinnati Bell Telephone Company in the states of Ohio, Indiana and Kentucky), and Progressive Communications of Hawaii, Inc. (the state of Hawaii).

3. Product:

Lucent Product Components authorized for ARS Dealer
Terminals, circuit cards, and other adjuncts for:
Definity
Merlin Legend
Partner ACS

4. Software License:

The following is the End User Software License referred to in Section 15 of the Agreement:

END USER SOFTWARE LICENSE

LIMITED WARRANTY AND LIMITED LIABILITY

Compatibility. THE SOFTWARE IS NOT WARRANTED FOR NONCOMPATIBLE SYSTEMS.

Software. Lucent Technologies warrants that if the Software does not substantially conform to its specifications, the end-user customer ("You") may return it to the place of purchase within 90 days after the date of purchase, provided that You have deployed and used the Software solely in accordance with this License Agreement and the applicable Lucent Technologies installation instructions. Upon determining that the returned Software is eligible for warranty coverage, Lucent Technologies will either replace the Software or, at Lucent Technologies's option, will offer to refund the License Fee to You upon receipt from You of all copies of the Software and Documentation. In the event of a refund, the License shall terminate.

DISCLAIMER OF WARRANTIES. LUCENT TECHNOLOGIES MAKES NO WARRANTY, REPRESENTATION, OR PROMISE TO YOU NOT EXPRESSLY SET FORTH IN THIS AGREEMENT. LUCENT TECHNOLOGIES DISCLAIMS AND EXCLUDES ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. LUCENT TECHNOLOGIES DOES NOT WARRANT THAT THE SOFTWARE OR DOCUMENTATION WILL SATISFY YOUR REQUIREMENTS, THAT THE SOFTWARE OR DOCUMENTATION ARE WITHOUT DEFECT OR ERROR, OR THAT THE OPERATION OF THE SOFTWARE WILL BE UNINTERRUPTED. ALSO, LUCENT TECHNOLOGIES DOES NOT WARRANT THAT THE SOFTWARE WILL PREVENT, AND LUCENT TECHNOLOGIES WILL NOT BE RESPONSIBLE FOR, UNAUTHORIZED USE (OR CHARGES FOR SUCH USE) OF COMMON CARRIER TELECOMMUNICATION SERVICES OR FACILITIES ACCESSED THROUGH OR CONNECTED TO THE SOFTWARE (TOLL FRAUD). Some states do not allow the exclusion of implied warranties or limitations on how long an implied warranty lasts, so the above limitation may not apply to You. This warranty gives You specific legal rights which vary from state to state.

EXCLUSIVE REMEDY AND LIMITATION OF LIABILITY. EXCEPT FOR BODILY INJURY PROXIMATELY CAUSED BY LUCENT TECHNOLOGIES'S NEGLIGENCE, YOUR EXCLUSIVE REMEDY AND LUCENT TECHNOLOGIES'S ENTIRE LIABILITY ARISING FROM OR RELATING TO THIS LICENSE AGREEMENT OR TO THE SOFTWARE OR DOCUMENTATION SHALL BE LIMITED TO DIRECT DAMAGES IN AN AMOUNT NOT TO EXCEED \$ 10,000. LUCENT TECHNOLOGIES SHALL NOT IN ANY CASE BE LIABLE FOR ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL, INDIRECT, OR PUNITIVE - DAMAGES, EVEN IF LUCENT TECHNOLOGIES HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. LUCENT TECHNOLOGIES IS NOT RESPONSIBLE FOR LOST PROFITS OR REVENUE OR SAVINGS, LOSS OF USE OF THE SOFTWARE, LOSS OF DATA, COSTS OF RECREATING LOST DATA, THE COST OF ANY SUBSTITUTE EQUIPMENT OR PROGRAM, CHARGES FOR COMMON CARRIER TELECOMMUNICATION SERVICES OR FACILITIES ACCESSED THROUGH OR CONNECTED TO THE SOFTWARE (TOLL FRAUD), OR CLAIMS BY ANY PERSON OTHER THAN YOU. THESE LIMITATIONS OF

LIABILITY SHALL APPLY NOTWITHSTANDING THE FAILURE OF AN EXCLUSIVE REMEDY. Some states do not allow the exclusion or limitation of incidental or consequential damages, so the above limitation or exclusion may not apply

to You.

Lucent Technologies grants You a personal, non-transferable and non-exclusive right to use, in object code form, all software and related documentation furnished under the Agreement between Lucent Technologies and [Dealer]. This grant shall be limited to use with the equipment for which the software was obtained or, on a temporary basis, on back-up equipment when the original equipment is inoperable. Use of software on multiple processors is prohibited unless otherwise agreed to in writing by Lucent Technologies. You agree to use your best efforts to see that your employees and users of all software licensed under this Agreement comply with these terms and conditions and You will refrain from taking any steps, such as reverse assembly or reverse compilation, to derive a source code equivalent of the software.

You are permitted to make a single archive copy of software. Any copy must contain the same copyright notice and proprietary marking as the original software. Use of software on any equipment other than that for which it was obtained, removal of the software from the United States, or any other material breach shall automatically terminate this license.

If the terms of this license differ from the terms of any license packaged with the software, the terms of the license packaged with the software shall govern.

ARS LICENSE AGREEMENT BETWEEN LUCENT

TECHNOLOGIES AND

FARMSTEAD TELEPHONE GROUP, INC.

FOR AUTHORIZED REMARKETING SUPPLIER PROGRAM

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Authorized Remarketing Supplier License Agreement between
Lucent Technologies and
Farmstead Telephone Group, Inc.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT, is effective as of October 1, 1998 and is by and between Lucent Technologies Inc., by and for its Business Communications Systems unit ("Lucent" or "Licensee'), and Farmstead Telephone Group, Inc. ("ARS" or "Licensee"). Capitalized terms used herein shall have the respective meanings assigned to them in Article I hereof.

WHEREAS, this License Agreement is to allow ARS to refurbish and resell used business premises communications products also known as customer premise equipment (CPE) manufactured by Lucent or Lucent's predecessor companies, AT&T Corp. or American Telephone and Telegraph Company (collectively, AT&T) and to minimize customer confusion that might otherwise arise as a result of the continued use of the AT&T name and marks, or the Lucent name or marks, by requiring ARS to remove such AT&T or Lucent name and marks and to apply a single distinctive Lucent mark (the "Licensed Mark") to such products

NOW, THEREFORE, the parties, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

For the purpose of this License Agreement, the following terms shall have the following meanings:

1.1 Control Specifications means standards of quality (including performance parameters) applicable to the refurbishing, testing, performance, provision, and support of a Product under the Licensed Mark or Licensed Trade Dress, as set forth or referenced in Schedule B, and the standards applicable to the marketing, advertising, and promotion of a Product under the Licensed Mark or Trade Dress, as set forth or referenced in Scheduled C.

1.2 Corporate Identification Mark means the Licensor's house mark and related trade dress used to identify and distinguish Licensor from other persons, as identified in Schedule D hereto.

1.3 Lucent Products means any product described in Schedule E hereto that are being refurbished by Licensee pursuant to this License Agreement.

1.4 Licensed Mark or Licensed Trade Dress means the mark "Classic Lucent" as identified in Schedule G hereto.

1.5 Licensed Territory has the meaning set forth in Article V hereof.

1.6 Mark means any word, name, symbol or device, or any combination thereof, used or intended to be used by a person to identify and distinguish the products or services of that person from the products or services of others and to indicate the source of such goods or services, even if that source is unknown.

1.7 End User means a third party to whom ARS markets or sells Lucent ARS refurbished Products within the Licensed Territory for use by such third party in the ordinary course of its business and not for resale.

ARTICLE II LICENSE GRANT

2.1 License Grant. Subject to the terms and conditions of this License Agreement, Licensor grants Licensee a personal, non-transferable, non-sublicensable, non-exclusive license to use the Licensed Mark in connection with the refurbishing, marketing, promotion, distribution and sale of Lucent Products commencing on the date of this License Agreement and ending December 31, 2001.

2.2 Extension of Grant. If Licensee is interested in licensing the Licensed Mark beyond the initial license period set forth above, Licensee shall notify Licensor no later than three (3) months prior to the expiration of such period. Upon such notification, Licensor and Licensee agree to negotiate in good faith whether to extend the license granted in this License Agreement and, if so, the terms and conditions of such an extension, including a commercially reasonable royalty for the use of the Licensed Mark. Notwithstanding the foregoing, neither Licensor nor Licensee shall have any obligation to enter into such extension.

2.3 Limitations on Grant. The Licensed Mark may not be used by Licensee in connection with any product or service except as expressly set forth in this License Agreement.

2.4 No Use in Licensee's Name. Licensee shall not use the Licensed Mark in Licensee's corporate, partnership, doing business as, or fictitious name at any time.

2.5 No Other Marks To Be Used. Licensee shall not use any other name, mark, indication of origin or trade dress of Licensor in connection with the refurbishing, remanufacture, marketing, promotion, distribution, sale or lease of any product or service without Licensor's express written

consent.

2.6 Modification of Licensed Mark. If Licensor modifies or replaces the Licensed Mark or Licensed Trade Dress as used in any substantial portion of Licensor's business, and if Licensor requests Licensee to adopt and use the modified or replaced Licensed

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Mark and Licensed Trade Dress, Licensee shall within sixty (60) days adopt and use such modified or replaced Licensed Mark or Licensed Trade Dress and such modified or replaced Licensed Mark or Licensed Trade Dress shall be considered the Licensed Mark and Licensed Trade Dress as defined in this License Agreement; provided, however, that Licensee may exhaust its inventory bearing the original Licensed Mark and Licensed Trade Dress.

2.7 Payments of Fees. Licensee will pay Licensor a fee of 10% of all sales of Classic Lucent(TM) product. Payment will be to Licensor and will be received by Licensor by the 15th working day of the month following the sale.

ARTICLE III AGREEMENT PERSONAL

3.1 Personal Nature of Agreement. The parties agree that the rights, obligations and benefits of this License Agreement shall be personal to Licensee, and Licensor shall not be required to accept performance from, or render performance to an entity other than Licensee. Pursuant to II U.S.C. [SECTION] 365 (c) (1) (A) (as it may be amended from time to time, and including any successor to such provision), in the event of the bankruptcy of Licensee, this License Agreement may not be assigned or assumed by Licensee, or any successor, and Licensor shall be excused from rendering performance to, or accepting performance from Licensee or any successor.

3.2 Sublicensing/Assignment. Licensee may not sublicense or assign the rights and obligations of this License Agreement without Licensor's express written consent.

ARTICLE IV LICENSES TO OTHERS AND OWNERSHIP

4.1 Nonexclusive License. Nothing in this License Agreements creates, and Licensee agrees not to assert, that Licensee has an exclusive license in the Licensed Mark.

4.2 Retention of Rights. Except as otherwise expressly provided in this License Agreement, Licensor shall retain all rights in and to the

Licensed Mark, including without limitation:

(a) All rights of ownership in and to the Licensed Mark;

(b) The right to use (including the right of Licensor's Affiliates to use) the Licensed Mark, either alone or in combination with other marks, in connection with the marketing, offer or provision of any product or service, including any product or service which competes with Products; and

(c) The right to license others to use the Licensed Mark.

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ARTICLE V
LICENSED TERRITORY

5.1 Licensed Territory. The Licensed Territory for the licenses granted in Article 11 of this License Agreement shall include the contiguous 48 states in the domestic United States of America plus Alaska but excluding Hawaii.

ARTICLE VI
QUALITY CONTROL

6.1 General. Licensee acknowledges that the Lucent Products covered by this License Agreement must be of sufficiently high quality as to provide maximum enhancement to and protection of the Licensed Mark and the good will they symbolize. Licensee further acknowledges that the maintenance of high quality Products is of the essence of this License Agreement and that it will utilize only marketing materials which do not disparage or place in disrepute Licensor, its businesses or its business reputation, or adversely affect or detract from Licensor's good will.

6.2 Control Specifications. Licensee shall use the Licensed Mark, only in connection with the refurbishing, remanufacture, marketing, distribution, promotion, sale and lease of Lucent Products that meet the Control Specifications. The Control Specifications shall consist of Technical Performance and Customer Satisfaction Specifications attached referenced in Schedule B hereto or provided to and accepted by Licensor, and the Marketing Specifications referenced in Schedule C hereto. Control Specifications shall be treated as proprietary information and shall be subject to the confidentiality provisions hereof referenced in Schedule H.

6.3 Customer Care Provisions. The parties recognize that customer complaints, inquiries, requests, orders, returns and similar communications regarding the products or services of one of them may be directed by customers or otherwise transmitted to the other. The parties agree jointly

to develop and comply with written policies and procedures for handling such communications, in order to ensure that customer communications are addressed expeditiously regardless of the initial recipient.

6.4 Changes to Marketing Specifications. The Marketing Specifications referenced in Schedule C hereto may be reasonably amended, modified or supplemented from time to time by Licensor upon giving Licensee sixty (60) days' prior written notice. Following any such amendment, modification or supplement to the Marketing Specifications, Licensee shall comply with such amendments, modifications or supplements.

6.5 Quality Control Reviews; Right of Inspection. Licensor shall have the right to designate from time to time, one or more Quality Control Representatives, who shall have the right from time to time but at least once per calendar quarter, without notice to Licensee, to conduct during regular business hours, and without disrupting Licensee's normal business operations, an inspection, test, survey and review of Licensee's facilities and otherwise to

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determine compliance with the applicable Control Specifications. At Licensor's request, Licensee agrees to furnish or make available for inspection to the Quality Control Representatives: (i) samples of any Lucent Product that is marketed or provided under the Licensed Mark for inspections, surveys, tests and reviews to assure conformance with the applicable Control Specifications; (ii) performance data in its control relating to the conformance of Lucent Products with the applicable Control Specifications, and (iii) samples of marketing materials, product packaging, instruction and warranty materials that use the Licensed Mark. Any such data provided to Licensor shall be treated as proprietary information subject to the confidentiality provisions. Licensor may independently conduct continuous customer satisfaction surveys to determine if Licensee is meeting the Control Specifications. Licensee shall cooperate with Licensor fully in the distribution of such surveys. Licensor shall, at the request of Licensee, provide Licensee with copies of customer surveys used by Licensor to determine if Licensee is meeting the Control Specifications. If Licensee learns that it is not complying with any Control Specifications, it shall notify Licensor and the provisions of Article VII shall apply to such noncompliance.

6.6 Sponsorship. Licensee shall not use the Licensed Mark to sponsor, endorse, or claim affiliation with any event, meeting, charitable endeavor or any other undertaking without obtaining the express written permission of Licensor. Any breach of this provision shall be deemed a Significant Breach by Licensee.

6.7 Costs. Costs associated with monitoring compliance with and enforcing these quality control provisions, and with administering this License Agreement, shall be borne by Licensor. The ARS is to be responsible

for the costs incurred for performing the required additional product and process audits resulting from Corrective Actions Requests. Process audits shall occur no more than once per calendar year. However, if the process audit results in Corrective Actions Request(s) (CARs) being issued wherein said expense is required and shall occur within eight months of the original audit date. Lucent Technologies and the ARS agree to negotiate in good faith the exact date of the follow-up audit. Product audits shall occur not more than four times per calendar year. Three successive audits with no lot rejections and no CARs issued shall result in a revised audit schedule of no more than two product audits per calendar year. However, should a future product audit result in the issuance of a CAR, Lucent reserves the right to re-invoke the more stringent ARS funded four audit per calendar year cycle. The cost of any audit visit, whether product or process, shall not exceed \$3,000 each. Licensor will fund one process audit at \$3,000 and two products audit at \$3,000 per calendar year. These three Licensor funded audits are the minimum number of audits that can be reached with no CARs.

6.8 Product Exists. Lucent Technologies exists support of products over time. When a product is no longer supported by Lucent Technologies, the ARS will no longer apply the Classic Lucent(TM) label to it. The ARS will be notified of exit dates by Lucent DDM Remarketing.

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ARTICLE VII
REMEDIES FOR NONCOMPLIANCE WITH CONTROL SPECIFICATIONS

7.1 Initial Cure Period. If Licensor becomes aware that Licensee is not complying with any Control Specifications, Licensor shall notify Licensee in writing, setting forth, in reasonable detail, a written description of the noncompliance and any suggestions for curing such noncompliance. Licensee shall then have twenty (20) days after receipt of such notice (the "Initial Cure Period") to correct or submit to Licensor a written plan to correct such noncompliance.

7.2 Second Cure Period. If noncompliance with the Control Specifications continues beyond the Initial Cure Period, Licensee and Licensor shall each promptly appoint a representative to negotiate in good faith actions that may be necessary to correct such noncompliance. The parties shall have twenty-five (25) days following the expiration of the Initial Cure Period (the "Second Cure Period") to agree on corrective actions.

7.3 Final Cure Period. If the noncompliance with the Technical Performance, Customer Satisfaction or Marketing Control Specifications continues beyond the Second Cure Period, Licensee shall either: (i) cease offering Lucent Products under the Licensed Mark until it can comply with

the Control Specifications; or (ii) be deemed to be in Significant Breach of this License Agreement.

7.4 Arbitration. In the event any dispute regarding compliance with Control Specifications continues beyond the Initial and Second Cure Periods described above, then either Licensor or Licensee may deliver to the other party an Arbitration Demand Notice or pursue any other rights or remedies expressly contemplated hereby, notwithstanding its failure to deliver an Escalation Notice. Any such arbitration shall be conducted in accordance with the Rules of the American Arbitration Association..

7.5 Potential Injury to Persons or Property. Notwithstanding the foregoing, in the event that Licensor reasonably determines that any noncompliance creates a material threat of personal injury or injury to property of any third party, upon written notice thereof by Licensor to Licensee, Licensee shall either cease offering Lucent Products under the Licensed Mark until it can comply with the Control Specifications, or be deemed to be in Significant Breach of this License Agreement.

ARTICLE VIII

PROTECTION OF LICENSED SERVICE MARKS AND LICENSED TRADE DRESS

8.1 Ownership and Rights. Licensee will not contest the validity of, and agrees not to challenge the ownership or validity of, the Licensed Mark. Licensee shall not disparage, dilute or adversely affect the validity of the Licensed Mark. Licensee agrees that any and all goodwill and other rights that may be acquired by the use of the Licensed Mark by Licensee shall inure to the sole benefit of Licensor. Licensee will not grant or attempt to grant a security interest in the Licensed Mark or this License Agreement, or to record any such security interest in the United

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States Patent and Trademark Office or elsewhere, against any trademark application or registration belonging to Licensor. Licensee agrees to execute all documents reasonably requested by Licensor to effect further registration of, maintenance and renewal of the Licensed Mark, and recordal of the license relationship between Licensor and Licensee and recordal of Licensee as a Registered User. For purposes of this License Agreement, Licensee shall not be considered a "related company" under the U.S. Trademark Act, 15 U.S.C. [SECTION] 1051 et seq.

8.2 Similar Marks. Licensee further agrees not to register in any country any Mark resembling or confusingly similar to the Licensed Mark, and not to use the Licensed Mark or any part thereof as part of its corporate name, nor use any Mark confusingly similar, deceptive or misleading with respect to the Licensed Mark. Licensee further agrees not to use or register in any country any Mark similar to the Licensed Mark, or which dilutes the Licensed Mark. If any application for registration is, or

has been, filed in any country by Licensee which relates to any Mark which, in the sole opinion of Licensor, is confusingly similar, deceptive or misleading with respect to the Licensed Mark, or which dilutes the Licensed Mark, Licensee shall, at Licensor's sole discretion, immediately abandon any such application or registration or assign it to Licensor. If Licensee uses any Mark which, in the sole opinion of Licensor, is confusingly similar, deceptive or misleading with respect to the Licensed Mark, or which dilutes the Licensed Mark, or if Licensee uses the Licensed Mark in connection with any product, or in connection with any service not specifically authorized hereunder, Licensee shall, immediately upon receiving a written request from Licensor, permanently cease such use.

8.3 Infringement. In the event that Licensee learns of any infringement or threatened infringement of the Licensed Mark, or any unfair competition, passing-off or dilution with respect to the Licensed Mark, or any third party alleges or claims that either the Licensed Mark is liable to cause deception or confusion to the public, or is liable to dilute or infringe any right of such third party, Licensee shall immediately notify Licensor or its authorized representative giving particulars thereof, and Licensee shall provide necessary information and assistance to Licensor or its authorized representatives in the event that Licensor decides that proceedings should be commenced or defended. Licensor shall have exclusive control of any litigation, opposition, cancellation or related legal proceedings; provided Licensor shall indemnify and hold harmless Licensee from any costs or expenses, including reasonable attorney fees, arising out of such litigatory proceedings. The decision whether to bring, defend, maintain or settle any such proceedings shall be at the exclusive option and expense of Licensor, and all recoveries shall belong exclusively to Licensor. Licensee will not initiate any such litigation, opposition, cancellation or related legal proceedings in its own name, but, at Licensor's request and sole expense, agrees to be joined as a party in any action taken by Licensor to enforce its rights in the Licensed Mark. Nothing in this License Agreement shall require or be deemed to require Licensor to enforce the Licensed Marks against others.

8.4 Compliance With Laws. In the performance of this License Agreement, Licensee shall comply with all applicable laws and regulations, including those laws and regulations particularly pertaining to the proper use and designation of Marks in the Licensed Territory. Should Licensee be or become aware of any applicable laws or regulations which are inconsistent with the provisions of this License Agreement, Licensee shall promptly notify

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Licensor of such inconsistency. In such event, Licensor may, at its option, either waive the performance of such inconsistent provisions, or negotiate with Licensee to make changes in such provisions to comply with applicable laws and regulations.

ARTICLE IX
TERMINATION

9.1 Breach by Licensee. Licensor may terminate this License Agreement at any time in the event of a Significant Breach by Licensee. A "Significant Breach by Licensee" shall mean any event expressly specified in this License Agreement to be a "Significant Breach," and any of the following (after exhaustion of any cure periods set forth in Article VII hereof to the extent such cure periods are applicable):

(a) Licensee's use of any Mark (including the Licensed Mark) contrary to the provisions of this License Agreement;

(b) Licensee's use of the Licensed Mark in connection with any marketing materials, or the offering, marketing or provision of any Lucent Product which fails to meet the standards set forth in the Control Specifications; provided, however, that the failure of a particular product to comply with the Control Specifications shall be grounds for termination only as to that product; and, further provided that continued use of the Licensed Mark by Licensee in connection with such product shall be grounds for termination of the License Agreement as to all Products;

(c) Licensee's refusing or neglecting a request as provided in this Agreement by Licensor for access to Licensee's facilities or marketing materials;

(d) Licensee's licensing, assigning, transferring, disposing of or relinquishing (or purporting to license, assign, transfer, dispose of or relinquish) any of the rights granted in this License Agreement to others;

(e) The bankruptcy or insolvency of Licensee or an Affiliate of Licensee;

(f) Licensee's failure to obtain Licensor's permission to sponsor any undertaking as provided in Section 6.6 of this License Agreement.

9.2 Termination Obligations. In the event Licensor terminates this License Agreement pursuant to this Article:

(a) Licensee shall, for a period of up to ninety (90) days from receipt of the first written notice of termination, continue to have use of the Licensed Mark and Licensed Trade Dress for the purpose of fulfilling existing customer orders, selling its remaining inventory and exhausting its supply of packaging materials containing such Licensed Mark and Trade Dress, then immediately cease all use of the Licensed Trade Mark and Licensed Trade Dress, except

that Licensor, in its sole discretion, may allow Licensee to continue use of the Licensed Mark for a period of up to two (2) months as directed by Licensor;

(b) Except as provided in section 9.2 (a), Licensee shall have no further rights under this License Agreement.

9.3 n/a

9.4 Lucent may terminate this Agreement upon thirty (30) days prior written notice to ARS if: (i) ARS markets or sells Lucent Products outside the Licensed Territory except as specifically permitted in Section 5.1; (ii) ARS fails to limit its marketing efforts to authorized locations or End-Users as defined in Section 1.7; (iii) ARS materially fails to provide End Users with forecasted stream of licensed products and to achieve levels of sales that comply with the Lucent ARS Product forecasts for the Area submitted pursuant to Section 11.0; (iv) ARS fails to provide payment in a reasonable time for reported sales to End Users; (v) there occurs any material change in the management or control of ARS; (vi) except if approved in writing by Lucent as stated in Section 15.1 sold or attempted to resell Classic Lucent(TM) refurbished Lucent Products to any third party other than an End User; (vii) purchased unused products manufactured by Lucent from a source other than DDM or sold or attempted to resell any unused products manufactured by Lucent that, if purchased through DDM, would be a Lucent Product under this Agreement; (viii) misrepresented, by statement or by omission, ARS's authority to resell under this or any other written agreement with Lucent that is limited to specific Lucent products or services, by stating or implying, by use of a Lucent Mark or otherwise, that the authority granted in this or such other agreement applies to any Lucent product or service not covered by this or such other agreement, or (ix) failed to comply with Lucent's guidelines for the proper use of Lucent's Marks.

9.5 Except as otherwise provided in this Agreement, either party may terminate this Agreement upon thirty (30) days prior written notice if the other party has defaulted in the performance or has breached its obligations under this Agreement, and such breach or default remains uncured for a period of twenty (20) business days following receipt of notice of such breach or default.

9.6 Lucent may terminate this Agreement upon twenty-four (24) hours written notice if Dealer has: (i) become insolvent, invoked as a debtor any laws relating to the relief of debtors' or creditors' rights, or has had such laws invoked against it; (ii) become involved in any liquidation or termination of its business; (iii) been involved in an assignment for the benefit of its creditors; (iv) remotely accessed PBX locations maintained by Lucent directly; (vii) activated software features without compensation to Lucent.

9.7 ARS may terminate this Agreement on twenty-four (24) hours written notice if Lucent has: (i) become insolvent, invoked as a debtor any laws relating to the relief of debtors' or creditors' rights, or has had such laws invoked against it; or (ii) become involved in any liquidation or termination of its business; or (iii) been involved in an assignment for the benefit of its creditors.

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9.8 Notwithstanding such termination rights, each party reserves all of its legal rights and equitable remedies, including without limitation those under the Uniform Commercial Code.

9.9 Neither party shall be liable to the other on account of termination of this Agreement, either for compensation or for damages of any kind or character whatsoever, on account of the loss by Lucent or Dealer of present or prospective profits on sales or anticipated sales, good will, or expenditures, investments or commitments made in connection therewith or in connection with the establishment, development or maintenance of ARSs business.

ARTICLE X INDEMNITIES

10.1 Except as provided in Section 10.2 below, Licensee shall defend, indemnify and hold Licensor harmless against all claims, suits, proceedings, costs, damages and judgments incurred, claimed or sustained by third parties, whether for personal injury or otherwise, arising from or in connection with Licensee's marketing, sale, lease or use of Lucent Products bearing the Licensed Mark after the date of this License Agreement to the extent such injury is caused by Licensee, and shall indemnify Licensor and each Indemnitee for all damages, losses, costs and expenses (including reasonable attorneys' fees) due to such use, sale, lease or marketing to the extent caused by Licensee and also for any improper or unauthorized use of the Licensed Mark by Licensee. The above indemnity obligation of Licensee will not apply to the extent any injury is caused by Licensee's compliance with the Quality Control Specifications, Marketing Specifications or other written directives by Licensor to Licensee;

10.2 Licensee shall notify Licensor, in writing, in the event that any third party claims, by suit, proceeding, action or otherwise, that Licensee's use of the Licensed Mark in connection with Lucent Products as provided in this License Agreement constitutes or amounts to a trademark, service mark or trade dress infringement, unfair competition or dilution, and, at Licensor's option, Licensee may be directed to tender the defense of such claims to Licensor. Licensor will indemnify and hold harmless Licensee against all claims, suits, proceedings, costs (including reasonable attorneys' fees), damages, and judgments incurred by Licensee as a result of such third party claims described above in this Section 10.2.

10.3 In the event that Licensor becomes aware of a claim that it believes is or may be subject to indemnification under Section 10.1 above, it shall promptly give notice to Licensee of such claim. In order for a claim to be eligible for indemnification under Section 10.1, Licensee must receive such prompt notice of any claim. Licensee shall have the right to control the defense and possible settlement of any such claim, and the Licensor shall cooperate in connection with defense.

10.4 In no event will either party have any liability to the other for any consequential or incidental damages in connection with this License Agreement.

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ARTICLE XI ARS FORECAST AND REPORTS

11.1 Upon execution of this Agreement, ARS shall submit to Lucent a forecast of total Lucent ARS Refurbished Product sales to be made by ARS during the contract term. The forecast must specify, for each quarter, the total dollar sale volume (based on ARS prices to End Users

11.2 Lucent may reject any forecast submitted by ARS if, in Lucent's sole judgment, such forecast does not project either: (1) the level of Lucent ARS Refurbished Product sales Lucent reasonably requires of ARS to achieve its marketing objectives in the Area; or (2) a realistic assessment of ARS's potential successful marketing opportunities in the Area during the forecast period. Lucent shall notify ARS in writing within thirty (30) days of receipt of ARS's forecast if Lucent has rejected such forecast or it will be deemed to have been accepted by Lucent.

11.3 ARS shall submit the forecast of Lucent ARS Refurbished Product sales and actual Lucent ARS Refurbished Product installation data specified in Section 11.1 in a format specified by Lucent. This Sales Report is due to be received by Lucent Technologies by the fifth working day of the month following the month of sales activity.

ARTICLE XII NOTICES

All notices or other communications under this License Agreement shall be in writing and shall be deemed to be duly given when (a) delivered in person, or (b) sent by telecopy, telegram or telex, or (c) deposited in the United States mail or private express mail, postage prepaid, addressed as follows:

(i) If to Licensor: Branch Manager - Remarketing

Lucent Technologies Inc.
211 Mt. Airy Road
Room IC315
Basking Ridge. NJ 07920

with a copy to:

Trademark and Copyright Counsel
Lucent Technologies Inc.
150 Allen Road
Liberty Comer, NJ 07938

(ii) If to Licensee: Mr. George Taylor
Farmstead Telephone Group, Inc.
22 Prestige Park Circle
East Hartford, CT 06108

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Either party may, by notice to the other party, change the address to which such notices are to be given.

ARTICLE XIII
COMPLIANCE WITH LAW

13.1 General. Nothing in this License Agreement shall be construed to prevent Licensor or Licensee from complying fully with all applicable laws and regulations, whether now or hereafter in effect. The construction, interpretation and performance of this Agreement shall be governed by the local laws of the State of Delaware.

13.2 Governmental Licenses, Permits and Approvals. Licensee, at its expense, shall be responsible for obtaining and maintaining all licenses, permits and approvals which are required by all Governmental Authorities with respect to this License Agreement, and to comply with any requirements of such Governmental Authorities for the registration or recording of this License Agreement. Licensee shall furnish to Licensor written evidence from such Governmental Authorities of any such licenses, permits, clearances, authorizations, approvals, registration or recording.

ARTICLE XIV
TERM OF AGREEMENT

14.1 Term. The term of this agreement will be starting October 1, 1998 running through December 31, 2001.

ARTICLE XV
ENTIRE AGREEMENT

15.1 Entire Agreement. The terms and conditions contained in this Agreement supercede all prior oral and written understandings between the parties and constitute the entire Agreement between them concerning the subject matter of this Agreement and shall not be contradicted, explained or supplemented by any course of dealing between Lucent or any of its affiliates and Licensee or any of its affiliates. This Agreement shall not be modified or amended except by a writing signed by an authorized representative of the party to be charged. An authorized representative is one who has the authority to execute this document or an assignee of that person.

IN WITNESS WHEREOF, the parties have caused this License Agreement to be executed by their duly authorized representatives.

Lucent Technologies Inc.

Farmstead Telephone Group, Inc.

By: /s/ James A. Albertini

By: /s/ George J. Taylor, Jr.

Name: James A. Albertini
Title: General Manager Remarketing
Date: 12/16/98

Name: George J. Taylor, Jr.
Title: Chairman and CEO
Date: 12/16/98

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SCHEDULE B
STANDARDS OF QUALITY

Quality Control Specifications

The average Acceptable Quality Level (AQL) required by Lucent Technologies for refurbished product is 1%. Refurbished product is never to exceed an AQL of 2.5%. AQL calculations include proper function, appearance, packaging, and labeling.

The vendor must have a written quality plan that will be used to ensure that final refurbished product meets Lucent Technologies' standards. The plan must address how the vendor incorporates the following elements into the repair and refurbishment process:

- * Test procedures, documentation, and control
- * Quality assurance, documentation, and control
- * Final product sampling and inspection (audits)
- * Quality data collection, tracking, and reporting
- * Corrective actions

Lucent Technologies requires that the vendor perform, on an on-going basis, final product quality assurance audits, using an agreed upon

valid sampling strategy and Lucent Technologies-approved testing procedures, appearance, packaging, and labeling standards. Results of these audits are to be provided to Lucent Technologies in an agreed upon electronic form at least monthly. In addition, Lucent Technologies reserves the right to perform its own audits of both the refurbished product and the repair process. Refurbished product may be inspected by Lucent Technologies unannounced on the vendor site, or at any distribution center around the world, at any time. Process audits, conducted at least yearly, will be scheduled in advance with the vendor.

The vendor is required to track its customer satisfaction and report the results to the Lucent Technologies' Repair Management Quality Organization at least yearly. In addition, the vendor is required to track its Defective On Arrival (DOA) rate per comcode per month, which is calculated as the number of DOA's per month divided by the number of units sent to customers that month. When a product's DOA rate exceeds Lucent Technologies' AQL limits of 2.5%, the vendor is expected to perform a root cause analysis, report results to Lucent Technologies, and implement corrective actions to reduce the DOA rate to an acceptable level.

The ARS will not remove any UL listed labels that appear on any of the products that are covered by this agreement.

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SCHEDULE C
MARKETING, ADVERTISING, AND PROMOTION

Licensed Mark

The Licensed Mark, Classic Lucent(TM), will always be bolded or italicized when it appears in print. The Classic Lucent identifier must always stand out or show differently from the rest of the text.

When using the Classic Lucent mark the trade mark indicator of a superscripted TM will follow only after the first appearance of the mark in text. After the first appearance the Classic Lucent mark will be differentiated but not followed by the TM.

The Classic Lucent Licensed Mark will always be used as an adjective or describing term; as in the Classic Lucent terminal or the Classic Lucent circuit card. The Authorized Refurbishers supply Classic Lucent products.

Promotional Signature

The Promotional Signature as described in Schedule D may be used by Authorized Refurbishers only if-

- * The Authorized Refurbisher has executed a written contract with Lucent Technologies
- * The contract entitles the Authorized Refurbisher to use the signature
- * The Authorized Refurbisher abides by the Guidelines as they apply to this signature and the contract is in effect.

For Maximum visibility and impact, a clear area around the promotional signature must be maintained. This clear area must be one-fourth the diameter of the Lucent Technologies innovation ring. No copy or design element may encroach into this clear area.

While reproduction of the signature is one color (black) is permissible, two color reproduction is preferred, with the Lucent Technologies ligature in black and the innovation ring in Lucent Red. Additional copy should be black. Pantone 186C may be substituted for Lucent Red.

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SCHEDULE D CORPORATE IDENTIFICATION MARK

Promotional Signature

The Promotional Signature for the Authorized Remarketing Supplier Program consists of the Lucent Innovation Ring framed on the top with the word "AUTHORIZED" and on the bottom with the word "REFURBISHER." A sample is shown below.

- INSERT LUCENT LOGO -

The use of the Promotional Signature for the Authorized Remarketing Supplier Program is subject to the same restrictions and guidelines as all Lucent Promotional Signatures.

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SCHEDULE E PRODUCTS LIST

The Products List presented here in Schedule E represents the Lucent Products that may be rebranded to the Classic Lucent(TM) brand. This List

includes Products that have been manufactured or sold by Lucent Technologies or it's predecessor AT&T.

Only product that is Year 2000 Compliant may be refurbished or sold. Product that is not Year 2000 Compliant may not be refurbished or sold. This prerequisite supersedes the Schedule E Products List. Licensee will not sell any Lucent product set forth below for which it has received written notice from Lucent that such Lucent product is not Year 2000 Compliant.

Lucent Technologies exists support of products over time. When a product is no longer supported by Lucent Technologies, the ARS will no longer apply the Classic Lucent(TM) label to it. The ARS will be notified of exit dates by Lucent DDM Remarketing.

Until Licensor is notified by Licensee of non-compliant and exited products, there will be violation of this Agreement.

The Products List includes terminals, circuit cards, and other adjuncts for:

- Key Systems
- EKTS
- Horizon
- Dimension
- System 25
- System 75
- System 85
- Definity
- Merlin
- Partner

Non-compliant products

The following is a list of non-compliant products: all Definity systems prior to R6, all Dimension systems, all Horizon systems, System 25 (pre R3V4), all System 85; all Centralized System Management systems, all CenterVu CMS systems, Merlin Legend CMS; all Integrated Solution I, II, or III on Definity, System 25 or Merlin Legend systems, all Conversant systems; all Audix Voice Power systems, Definity Audix prior to 3. 1, Intuity Audix R2.0, 3.3, 4.0, 4. 1, 4.2, Intuity Interchange, Intuity IMG, Intuity Lodging, Message Manager pre 4.3, all AUDIX systems; all 3132 Message Server, all Classic Mail, Merlin Mail prior to R3.05, Partner Mail RI.9 and earlier; all VMX 100/200/300; all call accounting systems, all system management systems.

Trade Mark

The new brand for the Authorized Remarketing Supplier program is "Classic Lucent.(TM) This new brand will be trademarked. Until the trademark is registered we will use the superscript TM after the full name "Classic Lucent as the following shows: Classic Lucent(TM)

Brand Logo

The Authorized Remarketing Supplier program which is run by licensed Authorized Refurbishers will buy, refurbish, and sell used Lucent BCS/AT&T equipment. The equipment will be rebranded with the new Lucent brand Classic Lucent(TM).

A rebranding label will have the word Classic appear over the word Lucent. The word Classic will be in outline form when it is in this label but the word Lucent will be solid. There will be no "(TM)" on the branding label. When the term Classic Lucent(TM) is used in text, the term is followed by the superscripted (TM) the first time it appears in context and Classic Lucent is either italicized or bolded to stand out. After the first use in context the Classic Lucent will appear either bolded or italicized without the superscripted (TM). When the trademark is registered the (TM) will be replaced with a circled R for a registered trademark. The "Classic Lucent" will always be used as an adjective, such as Classic Lucent sets or Classic Lucent circuit cards.

The Label will be used to rebrand AT&T and Lucent BCS logoed equipment. The label should cover The AT&T with globe or Lucent with Innovation Ring

- INSERT CLASSIC LUCENT LOGO -

August 24, 1998

First Union National Bank
205 Church Street
New Haven, CT 06510

Gentlemen:

This letter sets forth our agreements with respect to the obligations described below of Farmstead Telephone Group, Inc. (the "Borrower") to First Union National Bank (successor-in-interest to Affiliated Business Credit Corporation) ("First Union").

Borrower acknowledges that it is unconditionally indebted to First Union with respect to the revolving loan (the "Revolving Loan") extended by First Union to Borrower in the original principal amount of up to \$3,500,000 which is evidenced by, among other things, a Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended by letter agreements between Borrower and First Union dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, and May 6, 1998 (collectively, the "Loan Agreement") and a \$3,500,000 Third Amended and Restated Revolving Promissory Note dated June 6, 1997 (the "Third Amended and Restated Revolving Promissory Note"), the current principal balance of which as of August 24, 1998 is \$2,871,861.30 plus interest accrued and accruing thereon and costs and expenses of collection, including without limitation, attorneys' fees (collectively, the "Indebtedness"). Additionally, Borrower acknowledges that it has no defense, offset, counterclaim or right of recoupment to its obligations with respect to the Indebtedness and further that it has no other claim whatsoever against First Union (whether arising in contract, tort or otherwise) with respect to the Indebtedness or any other matter whatsoever.

Borrower has requested that First Union extend to the Borrower the following accommodation (the "Additional Accommodation"): a temporary \$500,000 increase in the maximum dollar amount of indebtedness that may be outstanding under the Loan Agreement from \$3,500,000 to \$4,000,000, which temporary increase shall be available from the date hereof through September 30, 1998. Capitalized terms used herein that are not defined herein have the meanings ascribed to them in the Loan Agreement.

First Union has agreed to extend the Accommodations but only on the following terms and conditions:

1. As an inducement to and in consideration of First Union's agreements contained herein, the Borrower represents, warrants and acknowledges to First Union that (a) all representations and warranties contained in the Loan Agreement and in the other documents executed in connection with the Indebtedness (collectively, including without limitation the Loan Agreement, the "Loan Documents") are true and correct on and as of the date hereof and are incorporated herein by reference and hereby remade; (b) the resolutions previously adopted by the Board of Directors of the Borrower and provided to First Union have not in any way been rescinded or modified and are now in full force and effect, except to the extent that they have been modified or supplemented to authorize this Agreement and the transactions described herein; (c) except as expressly waived herein, no event of default has occurred or is continuing under any of the Loan Documents and no condition exists which would constitute an event of default thereunder but for the giving of notice or passage of time, or both; and (d) the consummation of the transactions contemplated hereby is not prevented or limited by, nor does it conflict with or result in a breach of the terms, conditions or provisions of, any evidence of indebtedness, agreement or instrument of whatever nature to which Borrower party or by which it is bound, does not constitute a default under any of the foregoing, and does not violate any federal, state or local law, regulation or order of any court or agency which is binding upon Borrower.

2. The Loan Agreement is hereby amended as follows:

(a) The definition of "Borrowing Base" is hereby deleted in its entirety and the following is substituted in lieu thereof-

"Borrowing Base" shall mean an amount equal to the lesser of: (i) (1) from August 24, 1998 through September 30, 1998, FOUR MILLION DOLLARS (\$4,000,000), and (2) from and after October 1, 1998, THREE MILLION FIVE HUNDRED THOUSAND (\$3,500,000), or, in either case, (ii) an amount equal to the aggregate of (1) seventy-five percent (75%) of Eligible Accounts (not including AT&T Coupons (as defined below)), plus (2) the lesser of (A) ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000), or (B) fifty percent (50%) of the amount due to Borrower from American Telephone & Telegraph Company ("AT&T") in connection with the coupons issued in the so-called SPIRIT Communications System Class Action Settlement ("AT&T Coupons") (it being expressly agreed and understood that only the amount by which AT&T's obligations with respect to AT&T Coupons together with all accounts due from AT&T to Borrower exceeds the then amount due from Borrower to AT&T shall be eligible pursuant to this subsection (2)(B)).".

3. Borrower acknowledges and affirms that it shall be able to request the Additional Accommodation only to the extent that Borrower has borrowing availability pursuant to Section (ii) of the definition of "Borrowing Base" as currently set forth in the Loan Agreement.

4. Contemporaneously herewith, the Borrower shall execute and/or deliver to First Union a \$500,000 Demand Promissory Note to evidence the indebtedness that may arise in connection with the Additional Accommodation, which Note shall be in the form of Exhibit A annexed hereto.

5. The Borrower acknowledges and agrees that all indebtedness, liabilities and obligations of the Borrower to First Union, including without limitation, the Indebtedness evidenced by the Third Amended and Restated Revolving Promissory Note, shall (except as set forth in the Intercreditor Agreements) continue to be secured by a first lien on and security interest in all of the Borrower's assets, including without limitation the promissory note from FAMS, LLC to Borrower dated December 1, 1997 and all security therefor.

6. This Agreement and the other Loan Documents constitute the entire understanding and agreement among the parties hereto and supersede any prior or contemporaneous oral understanding with respect to the subject matter hereof Except as expressly modified herein, the Loan Documents remain unmodified and in full force and effect in accordance with their terms. To the extent that there is a conflict between this Agreement and the Loan Documents, the terms of this Agreement shall prevail.

If the foregoing is in accordance with your agreement, please indicate the same by signing below.

Very truly yours,

FARMSTEAD TELEPHONE GROUP, INC.

By:

Robert G. LaVigne
Its Executive Vice President & CFO

Reviewed and Agreed to:

FIRST UNION NATIONAL BANK

By:

Its

COUNTY OF HARTFORD

On this the 24th day of August, 1998 before me, the undersigned officer, personally appeared Robert G. LaVigne who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand.

Notary Public
My Commission Expires 4/30/2003

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Exhibit A

REVOLVING PROMISSORY NOTE

\$500,000

August 24, 1998

For value received, the undersigned, FARMSTEAD TELEPHONE GROUP, INC., a Delaware corporation ("Maker"), promises to pay to FIRST UNION BANK OF CONNECTICUT (SUCCESSOR-IN-INTEREST TO AFFILIATED BUSINESS CREDIT CORPORATION), or order ("Lender") at its office at 205 Church Street, New Haven, Connecticut 06510, or at such other place as the holder hereof (including Lender, hereinafter referred to as "Holder") may designate, the sum of up to FIVE HUNDRED THOUSAND DOLLARS (\$500,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before or after maturity or judgment, at the rate of one half of one percentage point (.5%) per annum above the Prime Rate on a floating basis, which rate shall be computed daily and payable monthly in arrears on the basis of a Three Hundred Sixty (360) day year and actual days elapsed, together with all taxes levied or assessed on this Note or the debt evidenced hereby against the Holder, and together with all costs, expenses and attorneys' and other professional fees incurred in any action to collect this Note or to enforce, preserve, realize or foreclose any mortgage, security agreement or other agreement securing this Note or to preserve, enforce, protect or sustain the lien of said mortgage, security agreement or other agreement or in any litigation or controversy arising from or connected with said mortgage, security agreement or other agreement or this Note. The term "Prime Rate" as used herein shall mean that rate announced by the Lender from time to time as its Prime Rate and is one of several interest rate bases used by Lender. Lender lends at rates both above and below Lender's Prime Rate, and Maker acknowledges that Lender's Prime Rate is not represented or intended to be the lowest or most favorable rate of interest offered by Lender. Any change in the interest rate because of a change in the Prime Rate shall become effective, without

notice or demand, immediately following any change in the Prime Rate.

The principal amount of this Note shall be advanced, at the sole discretion of Holder, pursuant to a Commercial Revolving Loan and Security Agreement between Maker and Lender dated June 5, 1995, as amended by various letter agreements between Maker and Lender, the most recent of which is dated as of the date hereof (collectively, the "CRLSA") and is subject in all respects to the terms and conditions of the CRLSA, including, but not limited to, the repayment terms and the termination date set forth in the CRLSA. Advances and payments on this Note may be evidenced by borrowing certificates, a grid (if any) attached to this Note or similar certificates or documents, or by an internal

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ledger account of Lender which shall set forth, among other things, the principal amount of any advances and payments thereof. Interest shall be paid on the first business day of each and every month commencing on September 1, 1998. Holder may, in its sole discretion, charge any amounts due hereunder to Maker's revolving loan account maintained with Holder pursuant to the CRLSA.

Maker agrees that (i) if any installment of interest, principal or other sum due hereunder is not paid when it is due under this Note, the CRLSA or under any instrument evidencing any other obligation of Maker to Holder; or (ii) if Maker or Holder shall terminate the CRLSA; or (iii) if Maker or any guarantor of any obligation of Maker hereunder shall make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of its property or suffer or permit the filing by or against it of any petition for adjudication, arrangement, reorganization or the like under any bankruptcy or insolvency law; or (iv) if an Event of Default shall occur under the CRLSA or any mortgage, security agreement or any other agreement securing this Note, any other note by Maker to Holder, or in the performance of any other obligation to Holder or any other entity or person; or (v) if there shall be any material adverse change from the present condition or affairs (financial or otherwise) of Maker or any of the guarantors of the obligations of Maker, that in Holder's reasonable opinion materially impairs its security or increases its risk; then an Event of Default shall have occurred hereunder and, upon the happening of any such event, the entire indebtedness with accrued interest thereon due under this Note shall, at the option of Holder, be immediately due and payable without notice. Failure to exercise such option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. Upon the occurrence and during the continuance of such an Event of Default, the interest rate on this Note shall automatically increase without notice to a floating per annum rate equal to two percentage points (2.0%) above the rate otherwise in effect hereunder.

In the event of Maker's failure to pay any installment of interest,

and/or to pay any other sum due hereunder or under the CRLSA for more than ten (10) days after the date it is due and payable, without in any way affecting Holder's right to declare an event of default to have occurred, a late charge equal to five percent (5%) of such late payment shall be assessed against Maker and shall be due and payable immediately.

Notwithstanding any provisions of this Note, it is the understanding and agreement of Maker and Holder (and any guarantors of Maker's liabilities) that the maximum rate of interest to be paid by Maker (or guarantors of Maker's liabilities) to Holder shall not exceed the highest or the maximum rate of interest permissible to be charged by a commercial lender such as Lender to a commercial borrower such as Maker under the laws of the State of Connecticut. Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

Maker, and each and all guarantors of this Note hereby give Holder a lien and right of setoff for all Maker's liabilities upon and against all the deposits, credits, collateral and property of Maker and guarantors, now or hereafter in the possession or control of Holder or in transit to it. Holder may, upon the occurrence of an event of default hereunder or upon demand for payment of any demand indebtedness owing from Maker to Holder, apply or set off the same, or any part thereof, to any liability of Maker even though unmatured.

Failure by Holder to insist upon the strict performance by Maker of any terms and provisions herein shall not be deemed to be a waiver of any terms and provisions herein, and Holder shall retain the right thereafter to insist upon strict performance by Maker of any and all terms and provisions of this Note or any document securing the repayment of this Note.

MAKER HEREBY WAIVES TRIAL BY JURY IN ANY COURT AND IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE FINANCING TRANSACTIONS OF WHICH THIS NOTE IS A PART AND/OR THE ENFORCEMENT OF ANY OF HOLDER'S RIGHTS AND REMEDIES, INCLUDING WITHOUT LIMITATION, TORT CLAIMS.

MAKER AND EACH AND ALL GUARANTORS OF THIS NOTE ACKNOWLEDGE THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES ITS RIGHTS TO NOTICE AND HEARING UNDER CHAPTER 903a OF THE CONNECTICUT GENERAL STATUTES, OR AS OTHERWISE ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH HOLDER MAY DESIRE TO USE, AND FURTHER WAIVES ITS RIGHTS TO REQUEST THAT HOLDER POST A BOND, WITH OR WITHOUT SURETY, TO PROTECT SAID MAKER AGAINST DAMAGES THAT MAY BE CAUSED BY ANY PREJUDGMENT REMEDY SOUGHT OR OBTAINED BY HOLDER. Maker further, waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and notice of any renewals or extensions of this Note, and all rights under any statute of limitations, and all guarantors agree that the time for payment of this Note may be extended at Holder's sole discretion, without impairing their liability thereon, and further consent to the release of all or any part of the security for the payment

hereof, at the discretion of Holder, or the release of any party liable for this obligation without affecting the liability of the other parties hereto.

MAKER ACKNOWLEDGES THAT IT MAKES THE WAIVERS SET FORTH IN THE TWO PRECEDING PARAGRAPHS KNOWINGLY,

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VOLUNTARILY AND WITHOUT DURESS AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF SUCH WAIVERS WITH ITS ATTORNEYS. MAKER FURTHER ACKNOWLEDGES THAT LENDER HAS NOT AGREED WITH OR REPRESENTED TO MAKER THAT THE PROVISIONS OF THE TWO PRECEDING PARAGRAPHS WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

This Note shall be governed by and construed in accordance with the laws of the State of Connecticut (but not its conflicts of law provisions). FARMSTEAD TELEPHONE GROUP, INC.

By: _____
Its

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STATE OF CONNECTICUT)

COUNTY OF HARTFORD)

ss: East Hartford

On this the 24th day of August, 1998 before me, the undersigned officer, personally appeared Robert G. LaVigne who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand.

Notary Public
My Commission Expires: April 30, 2003

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As of September 29, 1998

First Union National Bank
205 Church Street
New Haven, CT 06510

Gentlemen:

This letter sets forth our agreements with respect to the obligations described below of Farmstead Telephone Group, Inc. (the "Borrower") to First Union National Bank (successor-in-interest to Affiliated Business Credit Corporation) ("First Union").

Borrower acknowledges that it is unconditionally indebted to First Union with respect to the revolving loan (the "Revolving Loan") extended by First Union to Borrower which is evidenced by, among other things, a Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended by letter agreements between Borrower and First Union dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, May 6, 1998 and August 24, 1998 (collectively, the "Loan Agreement"), a \$3,500,000 Third Amended and Restated Revolving Promissory Note dated June 6, 1997 (the "Third Amended and Restated Revolving Promissory Note"), and a \$500,000 Revolving Promissory Note dated August 24, 1998 (the "\$500,000 Note") (the Third Amended and Restated Revolving Promissory Note and the \$500,000 Note are collectively referred to herein as the "Notes"). The current principal balance of the Notes as of September 23, 1998 is \$3,380,505.08, plus interest accrued and accruing thereon and costs and expenses of collection, including without limitation, attorneys' fees (collectively, the "Indebtedness"). Additionally, Borrower acknowledges that it has no defense, offset, counterclaim or right of recoupment to its obligations with respect to the Indebtedness and further that it has no other claim whatsoever against First Union (whether arising in contract, tort or otherwise) with respect to the Indebtedness or any other matter whatsoever.

Borrower has requested that First Union extend the availability of the \$500,000 temporary increase in the maximum dollar amount of indebtedness that may be outstanding under the Loan Agreement, and evidenced by the \$500,000 Note, for the period through October 31, 1998 (the "Accommodation"). Capitalized terms used herein that are not defined herein have the meanings ascribed to them in the Loan Agreement.

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1. As an inducement to and in consideration of First Union's

agreements contained herein, the Borrower represents, warrants and acknowledges to First Union that (a) all representations and warranties contained in the Loan Agreement and in the other documents executed in connection with the Indebtedness (collectively, including without limitation the Loan Agreement, the "Loan Documents") are true and correct on and as of the date hereof and are incorporated herein by reference and hereby remade; (b) the resolutions previously adopted by the Board of Directors of the Borrower and provided to First Union have not in any way been rescinded or modified and are now in full force and effect, except to the extent that they have been modified or supplemented to authorize this Agreement and the transactions described herein; (c) except as expressly waived herein, no event of default has occurred or is continuing under any of the Loan Documents and no condition exists which would constitute an event of default thereunder but for the giving of notice or passage of time, or both; and (d) the consummation of the transactions contemplated hereby is not prevented or limited by, nor does it conflict with or result in a breach of the terms, conditions or provisions of, any evidence of indebtedness, agreement or instrument of whatever nature to which Borrower party or by which it is bound, does not constitute a default under any of the foregoing, and does not violate any federal, state or local law, regulation or order of any court or agency which is binding upon Borrower.

2. The Loan Agreement is hereby amended as follows:

(a) The definition of "Borrowing Base" is hereby deleted in its entirety and the following is substituted in lieu thereof:

"Borrowing Base" shall mean an amount equal to the lesser of (i) (1) from September 30, 1998 through October 31, 1998, FOUR MILLION DOLLARS (\$4,000,000), and (2) from and after November 1, 1998, THREE MILLION FIVE HUNDRED THOUSAND DOLLARS and (ii) an amount equal to the aggregate of (1) seventy-five percent (75%) of Eligible Accounts (not including AT&T Coupons (as defined below)), plus (2) the lesser of (A) ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000), or (B) fifty percent (50%) of the amount due to Borrower from American Telephone & Telegraph Company ("AT&T") in connection with the coupons issued in the so-called SPIRIT Communications System Class Action Settlement ("AT&T Coupons") (it being expressly agreed and understood that only the amount by which AT&T's obligations with respect to AT&T Coupons together with all accounts due from AT&T to Borrower exceeds the then amount due from Borrower to AT&T shall be eligible pursuant to this subsection (2)(B))."

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3. Borrower acknowledges and affirms that it shall be able to request the Additional Accommodation only to the extent that Borrower has borrowing availability pursuant to Section (ii) of the definition of "Borrowing Base" as currently set forth in the Loan Agreement.

4. The Borrower acknowledges and agrees that all indebtedness, liabilities and obligations of the Borrower to First Union, including without limitation, the Indebtedness evidenced by the Notes, shall (except as set forth in the Intercreditor Agreements) continue to be secured by a first lien on and security interest in all of the Borrower's assets, including without limitation the promissory note from FAMS, LLC to Borrower dated December 1, 1997 and all security therefor.

5. This Agreement and the other Loan Documents constitute the entire understanding and agreement among the parties hereto and supersede any prior or contemporaneous oral understanding with respect to the subject matter hereof Except as expressly modified herein, the Loan Documents remain unmodified and in full force and effect in accordance with their terms. To the extent that there is a conflict between this Agreement and the Loan Documents, the terms of this Agreement shall prevail.

If the foregoing is in accordance with your agreement, please indicate the same by signing below.

Very truly yours,

FARMSTEAD TELEPHONE GROUP, INC.

By:

Robert G. LaVigne
Its Executive Vice President & CFO

Reviewed and Agreed to:

FIRST UNION NATIONAL BANK

By:

Its

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STATE OF CONNECTICUT

ss: East Hartford

COUNTY OF HARTFORD

On this the 30th day of September, 1998 before me, the undersigned officer, personally appeared Robert G. LaVigne who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand.

Notary Public
My Commission Expires 4/30/2003

As of October 15, 1998

First Union National Bank
205 Church Street
New Haven, CT 06510

Gentlemen:

This letter sets forth our agreements with respect to the obligations described below of Farmstead Telephone Group, Inc. (the "Borrower") to First Union National Bank (successor-in-interest to Affiliated Business Credit Corporation) ("First Union").

Borrower acknowledges that it is unconditionally indebted to First Union with respect to the revolving loan (the "Revolving Loan") extended by First Union to Borrower in the original principal amount of up to \$4,000,000 which is evidenced by, among other things, a Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended by letter agreements between Borrower and First Union dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, May 6, 1998, August 24, 1998 and as of September 29, 1998 (collectively, the "Loan Agreement"), a \$3,500,000 Third Amended and Restated Revolving Promissory Note dated June 6, 1997 (the "Third Amended and Restated Revolving Promissory Note"), and a \$500,000 Revolving Promissory Note dated August 24, 1998 (the "\$500,000 Note") (the Third Amended and Restated Revolving Promissory Note and the \$500,000 Note are collectively referred to herein as the "Notes"). Borrower acknowledges that the aggregate outstanding principal balance of the Notes on October 13, 1998 was \$3,644,360.48 (\$3,500,000.00 with respect to the Third Amended and Restated Revolving Promissory Note and \$ 144,360.48 with respect to the \$500,000 Note), plus interest accrued and accruing thereon and costs and expenses of collection, including -without limitation, attorneys' fees (collectively, the "Indebtedness"). Additionally, Borrower acknowledges that it has no defense, offset, counterclaim or right of recoupment to its obligations with respect to the Indebtedness and further that it has no other claim whatsoever against First Union (whether arising in contract, tort or otherwise) with respect to the Indebtedness or any other matter whatsoever.

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Borrower has requested that First Union increase the maximum dollar amount of indebtedness that may be outstanding under the Loan Agreement from \$4,000,000 to \$6,000,000, and extend the Term of the Revolving Loan for the period through and including May 30, 2000 (the "Accommodation"). Capitalized terms used herein that are not defined herein have the meanings

ascribed to them in the Loan Agreement.

First Union has agreed to extend the Accommodations but only on the following terms and conditions:

1. As an inducement to and in consideration of First Union's agreements contained herein, the Borrower represents, warrants and acknowledges to First Union that (a) all representations and warranties contained in the Loan Agreement and in the other documents executed in connection with the Indebtedness (collectively, including without limitation the Loan Agreement, the "Loan Documents") are true and correct on and as of the date hereof and are incorporated herein by reference and hereby remade; (b) the resolutions previously adopted by the Board of Directors of the Borrower and provided to First Union have not in any way been rescinded or modified and are now in full force and effect, except to the extent that they have been modified or supplemented to authorize this Agreement and the transactions described herein; (c) no event of default has occurred or is continuing under any of the Loan Documents and no condition exists which would constitute an event of default thereunder but for the giving of notice or passage of time, or both; and (d) the consummation of the transactions contemplated hereby is not prevented or limited by, nor does it conflict with or result in a breach of the terms, conditions or provisions of, any evidence of indebtedness, agreement or instrument of whatever nature to which Borrower is a party or by which it is bound, does not constitute a default under any of the foregoing, and does not violate any federal, state or local law, regulation or order of any court or agency which is binding upon Borrower.

2. The Loan Agreement is hereby amended as follows:

(a) All references in the Loan Agreement to "\$3,500,000" are hereby deleted in their entirety and "\$6,000,000" is substituted in lieu thereof.

(b) The definition of "Borrowing Base" is hereby deleted in its entirety and the following is substituted in lieu thereof-

"Borrowing Base" shall mean an amount equal to the lesser of.- (i) SIX MILLION DOLLARS (\$6,000,000), and

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(ii) an amount equal to seventy-five percent (75%) of Eligible Accounts."

(c) Section 6.27 is hereby deleted in its entirety and the following is substituted in lieu thereof-

"Section 6.27 Tangible Net Worth. Permit its Tangible Net Worth to be less than (a) \$5,750,000 at any time through

and including December 31, 1998, and (b) \$600,000 at December 31, 1999 and any time thereafter. As used herein "Tangible Net Worth" shall mean at any time the sum of (i) the book value of total assets, minus (ii) total liabilities, minus (iii) all assets which are classified as intangible assets in accordance with generally accepted accounting principles, minus (iv) debt due from any shareholders of Borrower or other affiliates of Borrower, plus (v) all debt that has been subordinated to the Lender by express written agreement between the Lender and the holder of such debt."

(d) The reference to May 30, 1999 in Section 12.1 (a) is hereby deleted and "May 30, 2000" is substituted in lieu thereof.

(e) All references in the Loan Agreement to the Third Amended and Restated Revolving Promissory Note are hereby deleted and "Fourth Amended and Restated Revolving Promissory Note" is substituted therefor. The copy of the Third Amended and Restated Revolving Promissory Note attached to the Loan Agreement as Exhibit A is hereby deleted and a copy of the Fourth Amended and Restated Revolving Promissory Note annexed hereto as Schedule A is attached in lieu thereof.

3. The Borrower acknowledges and agrees that all indebtedness, liabilities and obligations of the Borrower to First Union, including without limitation, the Indebtedness evidenced by the Notes, shall (except as set forth in the Intercreditor Agreements) continue to be secured by a first lien, on and security interest in all of the Borrower's assets, including without limitation the promissory note from FAMS, LLC to Borrower dated December 1, 1997 and all security therefor.

4. The Borrower has reviewed the areas within its business and operations which could be adversely affected by, and has developed or is developing a program to address on a timely basis, the risk that computer applications used by the Borrower may be unable to recognize and perform properly

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date-sensitive functions involving certain dates prior to and any date after December 31, 1999 (the "Year 2000 Problem"). Based upon such review, the Borrower reasonably believes that the "Year 2000 Problem" will not have any materially adverse effect on the business or financial condition of the Borrower. Borrower shall take all action necessary to assure that Borrower's computer based systems are able to operate and effectively process data including dates on and after January 1, 2000. At the request of First Union, Borrower shall provide First Union with assurance acceptable to First Union of Borrower's Year 2000 compatibility.

5. On or before the date hereof, Borrower shall pay or have paid to First Union (i) a facility fee in the amount of \$3,750 representing one quarter of one percent (0.25%) of the increased commitment under the Revolving Loan, and (ii) all fees and expenses and other costs incurred by First Union in connection with the Accommodations contemplated herein (including without limitation, all attorney's and other professional fees and expenses).

6. Disbursements of Revolving Loan advances shall be made by crediting the amount thereof to an account of Borrower maintained at First Union, as specified by Borrower.

7. Contemporaneously herewith, (a) the Borrower shall execute and deliver to First Union a \$6,000,000 Fourth Amended and Restated Revolving Promissory Note (the "Fourth Amended and Restated Revolving Promissory Note"), which shall supersede and replace the Notes, and (b) the Borrower shall execute and deliver to First Union resolutions authorizing this Agreement and the transactions described herein, all of which shall be in form and content satisfactory to First Union.

8. This Agreement and the other Loan Documents constitute the entire understanding and agreement among the parties hereto and supersede any prior or contemporaneous oral understanding with respect to the subject matter hereof. Except as expressly modified herein, the Loan Documents remain unmodified and in full force and effect in accordance with their terms. To the extent that there is a conflict between this Agreement and the Loan Documents, the terms of this Agreement shall prevail.

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If the foregoing is in accordance with your agreement, please indicate the same by signing below.

Very truly yours,

FARMSTEAD TELEPHONE GROUP, INC.

By:

Its

Reviewed and Agreed to:

FIRST UNION NATIONAL BANK

By

Its Vice President

On this the 19th day of October, 1998 before me, the undersigned officer, personally appeared Robert G. LaVigne, who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand

Notary Public
My Commission Expires 5/31/2002

Schedule A

FOURTH AMENDED AND RESTATED
REVOLVING PROMISSORY NOTE

\$6,000,000

As of October 15, 1998

For value received, the undersigned, FARMSTEAD TELEPHONE GROUP, INC., a Delaware corporation ("Maker"), promises to pay to FIRST UNION NATIONAL BANK (SUCCESSOR-IN-INTEREST TO AFFILIATED BUSINESS CREDIT CORPORATION), or order ("Lender") at its office at 205 Church Street, New Haven, Connecticut 06510, or at such other place as the holder hereof (including Lender, hereinafter referred to as "Holder") may designate, the sum of up to SIX MILLION DOLLARS (\$6,000,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before or after maturity or judgment, at the rate of one half of one percentage point (0.5%) per annum above the Prime Rate on a floating basis, which rate shall be computed daily and payable monthly in arrears on the basis of a Three Hundred Sixty (360) day year and actual days elapsed, together with all taxes levied or assessed on this Note or the debt evidenced hereby against the Holder, and together with all costs, expenses and attorneys' and other professional fees incurred in any action to collect this Note or to enforce, preserve, realize or foreclose any mortgage, security agreement or other agreement securing this Note or to preserve, enforce, protect or sustain the lien of said mortgage, security agreement or other agreement or in any litigation or controversy arising from or connected with said mortgage, security agreement or other agreement or this Note. The term "Prime Rate" as used herein shall mean that rate announced by the Lender from time to time as its Prime Rate and is one of several interest rate bases used by Lender. Lender lends at rates both above and below Lender's Prime Rate, and Maker acknowledges that Lender's Prime Rate is not represented or intended to be

the lowest or most favorable rate of interest offered by Lender. Any change in the interest rate because of a change in the Prime Rate shall become effective, without notice or demand, immediately following any change in the Prime Rate.

The principal amount of this Note shall be advanced, at the sole discretion of Holder, pursuant to a Commercial Revolving Loan and Security Agreement between Maker and Lender dated June 5, 1995, as amended by various letter agreements between Maker and Lender dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, May 6, 1998, August 24, 1998, September 29, 1998 and as of the date hereof (collectively, the "CRLSA") and is subject in all respects to the terms and conditions of the CRLSA, including, but not limited to, the repayment terms and the termination date set forth in the CRLSA. Advances and payments on this Note may be evidenced by borrowing certificates, a grid (if any) attached to this Note or

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similar certificates or documents, or by an internal ledger account of Lender which shall set forth, among other things, the principal amount of any advances and payments thereof. Interest shall be paid on the first business day of each and every month commencing on November 1, 1998. Holder may, in its sole discretion, charge any amounts due hereunder to Maker's revolving loan account maintained with Holder pursuant to the CRLSA.

Maker agrees that (i) if any installment of interest, principal or other sum due hereunder is not paid when it is due under this Note, the CRLSA or under any instrument evidencing any other obligation of Maker to Holder; or (ii) if Maker or Holder shall terminate the CRLSA; or (iii) if Maker or any guarantor of any obligation of Maker hereunder shall make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of its property or suffer or permit the filing by or against it of any petition for adjudication, arrangement, reorganization or the like under any bankruptcy or insolvency law; or (iv) if an Event of Default shall occur under the CRLSA or any mortgage, security agreement or any other agreement securing this Note, any other note by Maker to Holder, or in the performance of any other obligation to Holder or any other entity or person; or (v) if there shall be any material adverse change from the present condition or affairs (financial or otherwise) of Maker or any of the guarantors of the obligations of Maker, that in Holder's reasonable opinion materially impairs its security or increases its risk; then an Event of Default shall have occurred hereunder and, upon the happening of any such event, the entire indebtedness with accrued interest thereon due under this Note shall, at the option of Holder, be immediately due and payable without notice. Failure to exercise such option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. Upon the occurrence and during the continuance of such an Event of Default, the interest rate on this Note shall automatically increase without notice to a floating per annum rate

equal to two percentage points (2.0%) above the rate otherwise in effect hereunder.

In the event of Maker's failure to pay any installment of interest, and/or to pay any other sum due hereunder or under the CRLSA for more than ten (10) days after the date it is due and payable, without in any way affecting Holder's right to declare an event of default to have occurred, a late charge equal to five percent (5%) of such late payment shall be assessed against Maker and shall be due and payable immediately.

Notwithstanding any provisions of this Note, it is the understanding and agreement of Maker and Holder (and any guarantors of Maker's liabilities) that the maximum rate of interest to be paid by Maker (or guarantors of Maker's liabilities) to Holder shall not exceed the highest or the maximum rate of interest permissible to be charged by a commercial lender such as Lender to a commercial borrower such as Maker under the laws of the State of Connecticut.

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Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

Maker, and each and all guarantors of this Note hereby give Holder a lien and right of setoff for all Maker's liabilities upon and against all the deposits, credits, collateral and property of Maker and guarantors, now or hereafter in the possession or control of Holder or in transit to it. Holder may, upon the occurrence of an event of default hereunder or upon demand for payment of any demand indebtedness owing from Maker to Holder, apply or set off the same, or any part thereof, to any liability of Maker even though unmatured.

Failure by Holder to insist upon the strict performance by Maker of any terms and provisions herein shall not be deemed to be a waiver of any terms and provisions herein, and Holder shall retain the right thereafter to insist upon strict performance by Maker of any and all terms and provisions of this Note or any document securing the repayment of this Note.

MAKER HEREBY WAIVES TRIAL BY JURY IN ANY COURT AND IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE FINANCING TRANSACTIONS OF WHICH THIS NOTE IS A PART AND/OR THE ENFORCEMENT OF ANY OF HOLDER'S RIGHTS AND REMEDIES, INCLUDING WITHOUT LIMITATION, TORT CLAIMS.

MAKER AND EACH AND ALL GUARANTORS OF THIS NOTE ACKNOWLEDGE THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES ITS RIGHTS TO NOTICE AND HEARING UNDER CHAPTER 903a OF THE CONNECTICUT GENERAL STATUTES, OR AS OTHERWISE ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH HOLDER MAY DESIRE TO USE, AND FURTHER

WAIVES ITS RIGHTS TO REQUEST THAT HOLDER POST A BOND, WITH OR WITHOUT SURETY, TO PROTECT SAID MAKER AGAINST DAMAGES THAT MAY BE CAUSED BY ANY PREJUDGMENT REMEDY SOUGHT OR OBTAINED BY HOLDER. Maker further, waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and notice of any renewals or extensions of this Note, and all rights under any statute of limitations, and all guarantors agree that the time for payment of this Note may be extended at Holder's sole discretion, without impairing their liability thereon, and further consent to the release of all or any part of the security for the payment hereof, at the discretion of Holder, or the release of any party liable for this obligation without affecting the liability of the other parties hereto.

MAKER ACKNOWLEDGES THAT IT MAKES THE WAIVERS SET FORTH IN THE TWO PRECEDING PARAGRAPHS KNOWINGLY,

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VOLUNTARILY AND WITHOUT DURESS AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF SUCH WAIVERS WITH ITS ATTORNEYS. MAKER FURTHER ACKNOWLEDGES THAT LENDER HAS NOT AGREED WITH OR REPRESENTED TO MAKER THAT THE PROVISIONS OF THE TWO PRECEDING PARAGRAPHS WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

FARMSTEAD TELEPHONE GROUP, INC.

By:

Its

STATE OF CONNECTICUT)
ss: East Hartford
COUNTY OF HARTFORD)

On this the ____ day of October, 1998 before me, the undersigned officer, personally appeared Robert G. LaVigne who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand.

Notary Public
My Commission Expires:

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As of January 1, 1999

First Union National Bank
205 Church Street
New Haven, CT 06510

Gentlemen:

This letter sets forth our agreements with respect to the obligations described below of Farmstead Telephone Group, Inc. (the "Borrower") to First Union National Bank (successor-in-interest to Affiliated Business Credit Corporation) ("First Union").

Borrower acknowledges that it is unconditionally indebted to First Union with respect to the revolving loan (the "Revolving Loan") extended by First Union to Borrower in the original principal amount of up to \$6,000,000 which is evidenced by, among other things, a Commercial Revolving Loan and Security Agreement dated June 5, 1995, as amended by letter agreements, between Borrower and First Union dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, May 6, 1998, August 24, 1998, as of September 29, 1998 and as of October 15, 1998 (collectively, the "Loan Agreement") and a \$6,000,000 Fourth Amended and Restated Revolving Promissory Note dated as of October 15, 1998 (the "Fourth Amended and Restated Revolving Promissory Note") (the Fourth Amended and Restated Revolving Promissory Note sometimes referred to herein as the "Note"). Borrower acknowledges that the outstanding principal balance of the Note on December 31, 1998 was \$1,815,437.39, plus interest accrued and accruing thereon and costs and expenses of collection, including without limitation, attorneys' fees (collectively, the "Indebtedness"). Additionally, Borrower acknowledges that it has no defense, offset, counterclaim or right of recoupment to its obligations with respect to the Indebtedness and further that it has no other claim whatsoever against First Union (whether arising in contract, tort or otherwise) with respect to the Indebtedness or any other matter whatsoever.

The Borrower has requested that First Union modify the interest rate on the Revolving Loan so as to convert the Revolving Loan from a base rate loan to a loan with interest computed using a LIBOR market index rate (the "Accommodation").

Capitalized terms used herein that are not defined herein have the meanings ascribed to them in the Loan Agreement.

First Union has agreed to extend the Accommodations but only on the following terms and conditions:

1. As an inducement to and in consideration of First Union's agreements contained herein, the Borrower represents, warrants and acknowledges to First Union that (a) all representations and warranties contained in the Loan Agreement and in the other documents executed in connection with the Indebtedness (collectively, including without limitation the Loan Agreement, the "Loan Documents") are true and correct on and as of the date hereof and are incorporated herein by reference and hereby remade; (b) the resolutions previously adopted by the Board of Directors of the Borrower and provided to First Union have not in any way been rescinded or modified and are now in full force and effect, except to the extent that they have been modified or supplemented to authorize this Agreement and the transactions described herein; (c) no event of default has occurred or is continuing under any of the Loan Documents and no condition exists which would constitute an event of default thereunder but for the giving of notice or passage of time, or both; and (d) the consummation of the transactions contemplated hereby is not prevented or limited by, nor does it conflict with or result in a breach of the terms, conditions or provisions of, any evidence of indebtedness, agreement or instrument of whatever nature to which Borrower is a party or by which it is bound, does not constitute a default under any of the foregoing, and, does not violate any federal, state or local law, regulation or order of any court or agency which is binding upon Borrower.

2. The Loan Agreement is hereby amended as follows:

(a) All references in the Loan Agreement to the Fourth Amended and Restated Revolving Promissory Note are hereby deleted and "Fifth Amended and Restated Revolving Promissory Note" is substituted therefor. The copy of the Fourth Amended and Restated Revolving Promissory Note attached to the Loan Agreement as Exhibit A is hereby deleted and a copy of the Fifth Amended and Restated Revolving Promissory Note annexed hereto as Schedule A is attached in lieu thereof.

(b) By deleting Section 3.1(a) in its entirety and substituting therefor the following:

"(a) Interest Rate. The Revolving Loan shall bear interest (from the date made through and including the date of payment in full), at the per annum rates set forth in the Note."

3. The Borrower acknowledges and agrees that all indebtedness, liabilities and obligations of the Borrower to First Union, including without limitation, the Indebtedness evidenced by the Notes, shall (except as set forth in the Intercreditor Agreements) continue to be secured by a first lien on and security interest in all of the Borrower's assets,

including without limitation the

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promissory note from FAMS, LLC to Borrower dated December 1, 1997 and all security therefor.

4. On or before the date hereof, Borrower shall pay or have paid to First Union all fees and expenses and other costs incurred by First Union in connection with the Accommodation contemplated herein (including without limitation, all attorney's and other professional fees and expenses).

5. Contemporaneously herewith, (a) the Borrower shall execute and deliver to First Union a \$6,000,000 Fifth Amended and Restated Revolving Promissory Note (the "Fifth Amended and Restated Revolving Promissory Note"), which shall supersede and replace the Fourth Amended and Restated Revolving Promissory Note, and (b) the Borrower shall execute and deliver to First Union a certificate of Connecticut transaction, all of which shall be in form and content satisfactory to First Union.

6. This Agreement and the other Loan Documents constitute the entire understanding and agreement among the parties hereto and supersede any prior or contemporaneous oral understanding with respect to the subject matter hereof. Except as expressly modified herein, the Loan Documents remain unmodified and in full force and effect in accordance with their terms. To the extent that there is a conflict between this Agreement and the Loan Documents, the terms of this Agreement shall prevail.

If the foregoing is in accordance with your agreement, please indicate the same by signing below.

Very truly yours,

FARMSTEAD TELEPHONE GROUP, INC.

By:

Its

Reviewed and Agreed to:

FIRST UNION NATIONAL BANK

By

Its Vice President

STATE OF CONNECTICUT)

ss: East Hartford

COUNTY HARTFORD

On this the 22nd day of January, 1999 before me, the undersigned officer, personally appeared Robert G. LaVigne, who acknowledged that he is the Executive Vice President and CFO of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand

Notary Public
My Commission Expires 5/31/2002

Schedule A

FIFTH AMENDED AND RESTATED REVOLVING PROMISSORY NOTE

\$6,000,000

As of January 1, 1999

For value received, the undersigned, FARMSTEAD TELEPHONE GROUP, INC., a Delaware corporation ("Maker"), promises to pay to FIRST UNION NATIONAL BANK (SUCCESSOR-IN-INTEREST TO AFFILIATED BUSINESS CREDIT CORPORATION), or order ("Lender") at its office at 205 Church Street, New Haven, Connecticut 06510, or at such other place as the holder hereof (including Lender, hereinafter referred to as "Holder") may designate, the sum of up to SIX MILLION DOLLARS (\$6,000,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before or after maturity or judgment, beginning as of the date hereof, before or after maturity or judgment, at the rate equal to the LIBOR Market Index Rate plus two and three-quarters percent (2.75%) per annum, as that rate may change from day to day in accordance with changes in the Libor Market Index Rate. Interest shall be calculated daily on the basis of the actual number of days elapsed over a 360 day year, together with all taxes levied or assessed on this Note or the debt evidenced hereby against the Holder, and together with all costs, expenses and attorneys' and other professional fees incurred in any action to collect this Note or to enforce, preserve, realize or foreclose any mortgage, security agreement or other agreement securing this Note or to preserve, enforce, protect or sustain the lien of said mortgage, security agreement or other agreement or in any litigation or controversy arising from or connected with said mortgage, security agreement or other agreement or this Note. As used herein, "LIBOR Market Index Rate" means,

for any day, the rate for 1-month U.S. dollar deposits as reported on Telerate page 3750 as of 11:00 a.m., London time, on such day, or if such day is not a London business day, then the immediately preceding London business day (or if not so reported, then as determined by Lender from another recognized source or interbank quotation).

The principal amount of this Note shall be advanced, at the sole discretion of Holder, pursuant to a Commercial Revolving Loan and Security Agreement between Maker and Lender dated June 5, 1995, as amended by various letter agreements between Maker and Lender dated March 11, 1996, May 1, 1996, September 6, 1996, as of May 30, 1997, as of December 1, 1997, May 6, 1998, August 24, 1998, September 29, 1998, as of October 15, 1998 and as of the date hereof (collectively, the "CRLSA") and is subject in all respects to the terms and conditions of the CRLSA, including, but not limited to, the repayment terms and the termination date set forth in the CRLSA. Advances and payments on this Note may be evidenced by borrowing certificates, a grid (if any) attached to

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this Note or similar certificates or documents, or by an internal ledger account of Lender which shall set forth, among other things, the principal amount of any advances and payments thereof. Interest shall be paid on the first business day of each and every month commencing on February 1, 1999. Holder may, in its sole discretion, charge any amounts due hereunder to Maker's revolving loan account maintained with Holder pursuant to the CRLSA.

Maker agrees that (i) if any installment of interest, principal or other sum due hereunder is not paid when it is due under this Note, the CRLSA or under any instrument evidencing any other obligation of Maker to Holder; or (ii) if Maker or Holder shall terminate the CRLSA; or (iii) if Maker or any guarantor of any obligation of Maker hereunder shall make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of its property or suffer or permit the filing by or against it of any petition for adjudication, arrangement, reorganization or the like under any bankruptcy or insolvency law; or (iv) if an Event of Default shall occur under the CRLSA or any mortgage, security agreement or any other agreement securing this Note, any other note by Maker to Holder, or in the performance of any other obligation to Holder or any other entity or person; or (v) if there shall be any material adverse change from the present condition or affairs (financial or otherwise) of Maker or any of the guarantors of the obligations of Maker, that in , Holder's reasonable opinion materially impairs its security or increases its risk; then an Event of Default shall have occurred hereunder and, upon the happening of any such event, the entire indebtedness with accrued interest thereon due under this Note shall, at the option of Holder, be immediately due and payable without notice. Failure to exercise such option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. Upon the occurrence and during the

continuance of such an Event of Default, the interest rate on this Note shall automatically increase without notice to a floating per annum rate equal to two percentage points (2.0%) above the rate otherwise in effect hereunder.

In the event of Maker's failure to pay any installment of interest, and/or to pay any other sum due hereunder or under the CRLSA for more than ten (10) days after the date it is due and payable, without in any way affecting Holder's right to declare an event of default to have occurred, a late charge equal to five percent (5%) of such late payment shall be assessed against Maker and shall be due and payable immediately.

Notwithstanding any provisions of this Note, it is the understanding and agreement of Maker and Holder (and any guarantors of Maker's liabilities) that the maximum rate of interest to be paid by Maker (or guarantors of Maker's liabilities) to Holder shall not exceed the highest or the maximum rate of interest permissible to be charged by a commercial lender such as Lender to a commercial borrower such as Maker under the laws of the State of Connecticut.

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Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

Maker, and each and all guarantors of this Note hereby give Holder a lien and right of setoff for all Maker's liabilities upon and against all the deposits, credits, collateral and property of Maker and guarantors, now or hereafter in the possession or control of Holder or in transit to it. Holder may, upon the occurrence of an event of default hereunder or upon demand for payment of any demand indebtedness owing from Maker to Holder, apply or set off the same, or any part thereof, to any liability of Maker even though unmatured.

Failure by Holder to insist upon the strict performance by Maker of any terms and provisions herein shall not be deemed to be a waiver of any terms and provisions herein, and Holder shall retain the right thereafter to insist upon strict performance by Maker of any and all terms and provisions of this Note or any document securing the repayment of this Note.

MAKER HEREBY WAIVES TRIAL BY JURY IN ANY COURT AND IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE FINANCING TRANSACTIONS OF WHICH THIS NOTE IS A PART AND/OR THE ENFORCEMENT OF ANY OF HOLDER'S RIGHTS AND REMEDIES, INCLUDING WITHOUT LIMITATION, TORT CLAIMS.

MAKER AND EACH AND ALL GUARANTORS OF THIS NOTE ACKNOWLEDGE THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES ITS RIGHTS TO NOTICE AND HEARING UNDER CHAPTER 903a OF THE CONNECTICUT GENERAL

STATUTES, OR AS OTHERWISE ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH HOLDER MAY DESIRE TO USE, AND FURTHER WAIVES ITS RIGHTS TO REQUEST THAT HOLDER POST A BOND, WITH OR WITHOUT SURETY, TO PROTECT SAID MAKER AGAINST DAMAGES THAT MAY BE CAUSED BY ANY PREJUDGMENT REMEDY SOUGHT OR OBTAINED BY HOLDER. Maker further, waive diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, and notice of any renewals or extensions of this Note, and all rights under any statute of limitations, and all guarantors agree that the time for payment of this Note may be extended at Holder's sole discretion, without impairing their liability thereon, and further consent to the release of all or any part of the security for the payment hereof, at the discretion of Holder, or the release of any party liable for this obligation without affecting the liability of the other parties hereto.

MAKER ACKNOWLEDGES THAT IT MAKES THE WAIVERS SET FORTH IN THE TWO PRECEDING PARAGRAPHS KNOWINGLY,

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VOLUNTARILY AND WITHOUT DURESS AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF SUCH WAIVERS WITH ITS ATTORNEYS. MAKER FURTHER ACKNOWLEDGES THAT LENDER HAS NOT AGREED WITH OR REPRESENTED TO MAKER THAT THE PROVISIONS OF THE TWO PRECEDING PARAGRAPHS WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

This Note shall be governed by and construed in accordance with the laws of the State of Connecticut (but not its conflicts of law provisions).

FARMSTEAD TELEPHONE GROUP, INC.

By:

Its

STATE OF CONNECTICUT)

COUNTY OF HARTFORD)

ss: East Hartford

On this the ____ day of January, 1999 before me, the undersigned officer, personally appeared _____, who acknowledged that he is the _____ of Farmstead Telephone Group, Inc., a Delaware corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, as his and its free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand.

Commissioner of the Superior Court

Notary Public
My Commission Expires:

Monday, October 05, 1998

Dir#: 2568
Farmstead Telephone Group, Inc.
ATTN: Robert LaVigne
22 Prestige Park Circle
East Hartford, CT 06108

RE: Seasonal Uplift

Dear Robert LaVigne:

FINOVA Capital Corporation is pleased to advise you that Farmstead Telephone Group, Inc. has been approved for a fourth (4th) quarter increase in its line of credit. Effective October 1, 1998, your credit line will be increased to \$4,000,000.00. Please note the increase is temporary and will expire on January 31, 1999. All terms and conditions of your existing agreement with FINOVA Capital Corporation remain in force.

FINOVA is happy to extend this additional credit to you as we enter into the last quarter of 1998. We are committed to helping your business grow and look forward to a long-term relationship between Farmstead Telephone Group, Inc. and FINOVA Capital Corporation. If you have any questions, please feel free to contact me at (800) 777-3731-x8491. Thank you.

Respectfully,

/s/Mitchell J. Reaver

Mitchell J. Reaver
Account Executive
INVENTORY FINANCE

Cc: Dealer File
Credit File K. Guest

Thursday, February 04, 1999

2568
Farmstead Telephone Group, Inc.
Mr. Robert LaVigne
22 Prestige Park Circle
East Hartford, CT 06108

Re: Temporary increase to Line of Credit
With FINOVA Capital Corporation

Dear Mr. LaVigne,

FINOVA Capital Corporation ("FINOVA") is pleased to advise you of our commitment to offer Farmstead Telephone Group, Inc. (the "Borrower") a \$3,000,000.00 temporary increase in your line of credit from \$2,000,000.00 to \$5,000,000.00 (the "Line of Credit") for the period through March 31, 1999. After such time, the line shall return back to its original amount and continue as stated herein.

FINOVA maintains a common due date program whereas all payments are due in our office on the 1st, 10th, & 20th of each month. The terms under which such financing will be provided to your are 3pay90 from invoice date, with interest to accrue per annum ADB at 2.5% above Prime for those programs not fully rate supported for 90 days by the vendor. Of course the option is always available to avoid those interest charges by accepting shorter terms actually sponsored by the vendor. The default (maturity) rate commences on the day following the due date of each unpaid invoice. Offsets to payments to your account are not to be made unless previously authorized in writing by FINOVA. Unauthorized deductions shall be charged the default rate until the offset has been satisfied. From time to time, FINOVA may offer different terms to you after notice.

This commitment is made subject to the following terms and conditions:

A. Amount of Line of Credit

The Line of Credit shall be in a maximum amount of \$5,000,000.00 (as described above). FINOVA may from time to time finance sums above the committed line at its sole discretion. Further, any such

additional advances are not intended to be and should not be construed as a permanent commitment above the approved line and are subject to immediate repayment, at our sole option, upon notice by FINOVA. There shall be no minimum extension of credit required of FINOVA under this commitment. All extensions of credit shall be made in the sole and complete discretion of FINOVA. The outstanding balance under the Line of Credit shall be computed by adding the principal outstanding amount and the amount of unpurchased approvals.

B. Line of Credit Utilization

FINOVA will set aside up to \$500,000.00 of Farmstead's line of credit. This portion of the Line of Credit will be used to finance Borrower's open account inventory purchases (Other Eligible Inventory).

C. Other Eligible Inventory

FINOVA will finance other Eligible Inventory as follows:

- * Repayment terms shall be 1/2 30, 1/2 60 from the advance date;
- * Rate of Prime plus 1.5 percent (1.5%) per annum ADB from advance date;
- * Advances shall be in FINOVA's sole discretion and shall be made directly to Farmstead on a per invoice basis upon FINOVA's receipt of all appropriate support documentation;
- * Advance rate shall be up to 50 percent (50%) of the wholesale value of the invoice;
- * FINOVA reserves the right to approve vendors for advances on Other Eligible Inventory;
- * There shall be a per advance transaction fee equivalent to 0.10 percent (0.1%) of invoice amount;
- * No minimum balance requirement.

D. Duration of Line of Credit

The term of the Line of Credit shall continue through March 31, 1999 ("Expiration") at which time the Line of Credit shall terminate and revert back to its original amount of \$2,000,000.00 through 03/31/99. Currently FINOVA is considering a \$5,000,000.00 permanent inventory credit line for your account projected to be effective after such time for a period of one year. FINOVA will annually review the line for renewal based on our receipt and satisfactory review of your next fiscal year end financial statement. FINOVA may, in its sole and absolute discretion extend the Line of Credit for such additional periods of time and under such terms and conditions as FINOVA determines to be appropriate. No advances will be made by FINOVA until FINOVA actually receives executed copies of any and all

documentation required by FINOVA.

E. Early Termination

The Line of Credit may be terminated by FINOVA at any time prior to the Expiration specified above if:

1. The Borrower fails to execute and/or deliver any and all financing documents required by FINOVA, which financing documents shall include, but shall not be limited to, a Dealer Loan Security Agreement, Certificate of Corporate Borrowing Resolutions, and a UCC-1 broad lien on all assets.
2. The Borrower is in breach of any of the provisions of any of the financing documents required by FINOVA, or is in default under any such document.
3. There has occurred any adverse change in the financial condition, structure, ownership, or business prospects of the Borrower (or any guarantor of the Borrower's indebtedness to FINOVA), or if FINOVA shall learn of any misrepresentation or omission of a fact or circumstance by the Borrower (or any guarantor of the Borrower's indebtedness to FINOVA) which FINOVA deems to be material. The Borrower and all guarantors shall be obligated to notify FINOVA Capital Corporation in writing of any change in either their financial condition, structure, ownership, or business prospects.
4. The Borrower is in breach of any of the Conditions as set forth by FINOVA, and itemized below.

F. Recurring Conditions:

-
1. Collateral Covenants:
 - a) The ratio of total collateral available to FINOVA after deduction of senior liens to total FINOVA indebtedness must be at least 1.5 to 1 (1.5:1).
 - b) The ratio of Other Eligible Inventory to advances on Other Eligible Inventory must be at least 2 to 1 (2:1).
 - > In the event of a collateral shortfall, an immediate paydown shall be required.
 2. Reporting Requirements:
 - a) Monthly collateral reports of Accounts Receivable, Accounts Payable, and Inventory valuation reports are to be provided within 10 business days after the end of each month.
 - b) Monthly Borrowing Base to accompany collateral reports.
 - c) Quarterly 10-QSB's, if not easily obtainable by FINOVA.
 3. Operational Requirements:
 - a) Evidence of Casualty insurance in an amount greater than, or equal to the credit facility, accompanied by a Lender's

G. Current Conditions [to be satisfied within the next 30 days]:

1. Conversion of all required documentation from our predecessor, AT&T Capital Corporation, to that of our current name, FINOVA Capital Corporation.
2. Completion of the Y2K survey provided by FINOVA.
3. Satisfactory Audit, tentatively scheduled for the first week of March 1999.
4. Updated insurance certificate. The policy shows continued through 10/99, but FINOVA needs an actual copy of the insurance certificate to evidence the amount of contents coverage. Additionally, the Loss Payee name should be amended from AT&T to that of FINOVA.
5. Conversion of Intercreditor document with First Union (formerly Affiliated Business Credit) to amend our corporate name change from AT&T to FNV.

H. No Assignment

This commitment may not be assigned by the Borrower without the prior written consent of FINOVA, which consent shall be granted or withheld in the sole and absolute discretion of FINOVA.

We look forward to a continuing relationship!

Respectfully,

/s/Mitchell J. Reaver

Mitchell J. Reaver
Account Executive
INVENTORY FINANCE

Accepted: /s/ Robert G. LaVigne

(Name)

Executive Vice president

(Title)

2/8/99

(Date)

EXHIBIT 21. SUBSIDIARIES OF THE SMALL BUSINESS ISSUER

<TABLE>
<CAPTION>

Name	Percent Owned	State or other jurisdiction of incorporation or organization
-----	-----	-----
<S> Beijing Antai Communication Equipment Company, Ltd. Ltd.	<C> 50%	<C> Peoples Republic of China
FTG Venture Corporation	100%	Delaware
TeleSolutions, Inc.	40%	Republic of the Philippines

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>	<C>
<PERIOD-TYPE>	YEAR	YEAR
<FISCAL-YEAR-END>	DEC-31-1998	DEC-31-1997
<PERIOD-END>	DEC-31-1998	DEC-31-1997
<CASH>	590	1,102
<SECURITIES>	0	0
<RECEIVABLES>	5,237	5,656
<ALLOWANCES>	287	579
<INVENTORY>	6,850	2,583
<CURRENT-ASSETS>	12,584	9,503
<PP&E>	1,509	1,419
<DEPRECIATION>	664	484
<TOTAL-ASSETS>	13,498	10,829
<CURRENT-LIABILITIES>	5,185	3,063
<BONDS>	0	0
<PREFERRED-MANDATORY>	0	0
<PREFERRED>	0	0
<COMMON>	3	3
<OTHER-SE>	6,341	5,766
<TOTAL-LIABILITY-AND-EQUITY>	13,498	10,829
<SALES>	27,738	20,559
<TOTAL-REVENUES>	27,738	20,559
<CGS>	20,816	15,460
<TOTAL-COSTS>	20,816	15,460
<OTHER-EXPENSES>	5,926	5,552
<LOSS-PROVISION>	0	0
<INTEREST-EXPENSE>	272	204
<INCOME-PRETAX>	796	(557)
<INCOME-TAX>	16	43
<INCOME-CONTINUING>	780	(600)
<DISCONTINUED>	(209)	(1,266)
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	571	(1,866)
<EPS-PRIMARY>	.17	(.57)
<EPS-DILUTED>	.17	(.57)

</TABLE>