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FARMSTEAD TELEPHONE GROUP INC
Form 10-Q
August 13, 2001

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

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended June 30, 2001

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number: 0-15938

Farmstead Telephone Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1205743
(IRS Employer
Identification No.)

22 Prestige Park Circle
East Hartford, CT
(Address of principal executive offices)

06108
(Zip Code)

(860) 610-6000
(Registrant's telephone number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of August 10, 2001, the registrant had 3,272,579 shares of its \$0.001 par value Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands) June 30, December 31,
2001 2000

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(Unaudited)

ASSETS

Current assets:

| | | |
|--------------------------------------------------------------|--------|--------|
| Cash and cash equivalents | \$ 893 | \$ 374 |
| Accounts receivable, less allowance for doubtful accounts | 4,076 | 6,527 |
| Inventories | 6,959 | 7,181 |
| Deferred taxes and other current assets | 224 | 197 |

Total Current Assets 12,152 14,279

| | | |
|---------------------------------------------|-----|-----|
| Property and equipment, net | 591 | 632 |
| Deferred taxes and other non-current assets | 589 | 583 |

Total Assets \$13,332 \$15,494
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|------------------------------------------------------------|----------|----------|
| Accounts payable | \$ 3,092 | \$ 3,789 |
| Debt maturing within one year (Note 2) | 88 | 102 |
| Accrued expenses and other current liabilities (Note 3) | 757 | 1,493 |

Total Current Liabilities 3,937 5,384

| | | |
|-------------------------|-------|-------|
| Long-term debt (Note 2) | 1,700 | 1,726 |
| Other liabilities | 221 | 182 |

Total Liabilities 5,858 7,292

Minority Interest in Subsidiary (Note 4) 226 -

Stockholders' Equity (Note 5):

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| 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; 3,272,579 shares issued and outstanding at June 30, 2001 and December 31, 2000 | 3 | 3 |
| Additional paid-in capital | 12,273 | 12,248 |
| Accumulated deficit | (5,028) | (4,049) |

Total Stockholders' Equity 7,248 8,202

Total Liabilities and Stockholders' Equity \$13,332 \$15,494
=====

See accompanying notes to consolidated financial statements.

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| (In thousands, except income (loss) per share amounts) | For the Three Months Ended June 30, | | For t Months June |
|------------------------------------------------------------------------------------|-------------------------------------------|----------|-------------------------|
| | 2001 | 2000 | 2001 |
| Revenues | \$ 8,016 | \$11,125 | \$17,310 |
| Cost of revenues | 6,685 | 8,984 | 13,554 |
| Gross profit | 1,331 | 2,141 | 3,756 |
| Selling, general and administrative expenses | 2,320 | 1,884 | 4,451 |
| Operating income (loss) | (989) | 257 | (695) |
| Interest expense | (42) | (84) | (83) |
| Other income | 11 | 11 | 22 |
| Income (loss) before income taxes and minority interest in income of subsidiary | (1,020) | 184 | (756) |
| Provision for income taxes | 4 | 5 | 22 |
| Income (loss) before minority interest in income of subsidiary | (1,024) | 179 | (778) |
| Minority interest in income of subsidiary | 109 | - | 201 |
| Net income (loss) | \$ (1,133) | \$ 179 | \$ (979) |
| Basic and diluted net income (loss) per common share: | \$ (.35) | \$.05 | \$ (.30) |
| Weighted average common shares outstanding: | | | |
| Basic | 3,273 | 3,273 | 3,273 |
| Diluted | 3,302 | 3,274 | 3,332 |

See accompanying notes to consolidated financial statements.

3

FARMSTEAD TELEPHONE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
Six Months Ended June 30, 2001 and 2000

| (In thousands) | 2001 | 2000 |
|--------------------------------------------------------------------------------------------|----------|--------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (979) | \$ 202 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 130 | 167 |
| Minority interest in income of subsidiary | 201 | - |
| Value of compensatory stock options issued | 25 | 16 |
| Changes in operating assets and liabilities: | | |

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| | | |
|--------------------------------------------------------------------------|--------|---------|
| Decrease in accounts receivable | 2,451 | 400 |
| Decrease in inventories | 222 | 405 |
| Increase in other assets | (33) | (84) |
| (Decrease) increase in accounts payable | (697) | 1,421 |
| (Decrease) increase in accrued expenses and other current liabilities | (736) | 135 |
| Increase in other liabilities | 39 | 29 |
| ----- | | |
| Net cash provided by operating activities | 623 | 2,691 |
| ----- | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (89) | (106) |
| ----- | | |
| Net cash used in investing activities | (89) | (106) |
| ----- | | |
| Cash flows from financing activities: | | |
| Repayments of inventory finance borrowings | - | (1,175) |
| Borrowings (repayments) under revolving credit line | 11 | (1,404) |
| Repayments of capital lease obligation | (51) | (55) |
| Capital contribution from minority interest partner | 25 | - |
| ----- | | |
| Net cash used in financing activities | (15) | (2,634) |
| ----- | | |
| Net increase in cash and cash equivalents | 519 | (49) |
| Cash and cash equivalents at beginning of period | 374 | 446 |
| ----- | | |
| Cash and cash equivalents at end of period | \$ 893 | \$ 397 |
| ===== | | |

Supplemental disclosure of cash flow information:

Cash paid during the period for:

| | | |
|--------------|-------|--------|
| Interest | \$ 84 | \$ 199 |
| Income taxes | 82 | 5 |

See accompanying notes to consolidated financial statements.

4

FARMSTEAD TELEPHONE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The interim financial statements are presented on a consolidated basis, consisting of the accounts of Farmstead Telephone Group, Inc. ("Farmstead"), FTG Venture Corporation (inactive), a wholly owned subsidiary, and InfiNet Systems, LLC, a 50.1% owned subsidiary (collectively the "Company"). See Note 4 for further information on InfiNet. The interim financial statements presented herein are unaudited, however in the opinion of management these statements reflect all adjustments, consisting of adjustments that are of a normal recurring nature, which are necessary for a fair statement of results for the interim periods presented. This Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Note 2. Debt Obligations

Long-term Debt

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Long-term debt obligations consisted of the following (in thousands):

| | June 30, 2001 | December 31, 2000 |
|--------------------------------|------------------|----------------------|
| ----- | | |
| Revolving credit agreement | \$1,700 | \$1,689 |
| Obligation under capital lease | 88 | 139 |
| ----- | | |
| | 1,788 | 1,828 |
| Less current portion | (88) | (102) |
| ----- | | |
| Long-term debt | \$1,700 | \$1,726 |
| ===== | | |

As of June 30, 2001, the unused portion of the revolving credit facility was approximately \$6,300,000, of which approximately \$1,897,000 was available under various borrowing formulas. The average and highest amounts borrowed during the three months ended June 30, 2001 were approximately \$2.3 million and \$2.9 million, respectively. The average and highest amounts borrowed during the six months ended June 30, 2001 were approximately \$2.1 million and \$2.9 million, respectively. The Company was in compliance with its loan covenants as of June 30, 2001.

Note 3. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

| | June 30, 2001 | December 31, 2000 |
|------------------------------------------------|------------------|----------------------|
| ----- | | |
| Salaries, commissions and benefits | \$497 | \$1,137 |
| License fees payable to Avaya | 119 | 210 |
| Other | 141 | 146 |
| ----- | | |
| Accrued expenses and other current liabilities | \$757 | \$1,493 |
| ===== | | |

Note 4. Formation of Subsidiary

Effective February 1, 2001, the Company entered into a joint venture agreement with TriNet Business Trust ("TriNet"), forming a limited liability corporation operating under the name of InfiNet Systems, LLC ("InfiNet"). Under the agreement, the Company has a 50.1% ownership interest, and TriNet has a 49.9% ownership interest. Incorporated under the laws of the State of Delaware, and with operations currently based in East Hartford, CT, InfiNet was organized for the purpose of selling new Avaya telecommunications systems primarily to customers within the State of Connecticut and various counties in the State of New York. InfiNet was initially funded by an aggregate capital contribution of \$50,000. InfiNet recorded revenues of \$2,277,000 and net income of \$403,000 from its

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inception to June 30, 2001. InfiNet's total assets at June 30, 2001 were \$1,245,000.

Since the Company owns greater than a 50% interest in, and exercises significant control over, InfiNet, the financial statements of InfiNet have been consolidated herein. All intercompany balances and transactions have been eliminated.

5

Note 5. Stockholders' Equity

On July 18, 2001, the Company extended the expiration date of its Class A and Class B Redeemable Common Stock Purchase Warrants (the "Warrants") from August 12, 2001 to June 30, 2002. There are currently 1,137,923 of each class of Warrants outstanding, currently entitling the holders to acquire one share of Common Stock at an exercise price of \$2.00 per share. The Company also extended the expiration date of its 89,948 outstanding Representative Warrants from September 16, 2001 to June 30, 2002. The Representative Warrants entitle the holder 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 1996 to the Company's underwriter in connection with a secondary offering of securities.

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

Results of Operations

Net Income (Loss)

The net loss for the three months ended June 30, 2001 was \$1,133,000, compared to \$179,000 net income over the comparable 2000 period. The net loss included a \$325,000 charge to increase inventory valuation reserves, \$104,000 in employee termination costs, and \$110,000 net income attributable to the Company's 50.1 % ownership interest in the net income of InfiNet. The net loss for the six months ended June 30, 2001 was \$979,000, compared with \$202,000 net income for the six months ended June 30, 2000. The net loss for the six months ended June 30, 2001 included a \$325,000 charge to increase inventory valuation reserves, \$104,000 in employee termination costs, and \$202,000 net income attributable to the Company's 50.1 % ownership interest in the net income of InfiNet.

For the three months ended June 30, 2001, InfiNet recorded net income of \$220,000 on revenues of \$1,327,000. From its February 2001 inception to June 30, 2001, InfiNet recorded net income of \$403,000 on revenues of \$2,277,000. See the notes to consolidated financial statements contained elsewhere herein, for further information on InfiNet.

Revenues

| | Three months ended June 30, | | Six Months Ended June 30, | |
|----------------|--------------------------------|------|------------------------------|------|
| (In thousands) | 2001 | 2000 | 2001 | 2000 |
| ----- | | | | |

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| | | | | |
|----------------------------------|---------|----------|----------|----------|
| End-user parts and systems sales | \$6,341 | \$ 9,349 | \$13,888 | \$17,034 |
| Sales to resellers | 1,175 | 1,089 | 2,264 | 2,097 |
| Services | 500 | 687 | 1,158 | 1,443 |
| ----- | | | | |
| Consolidated revenues | \$8,016 | \$11,125 | \$17,310 | \$20,574 |
| ===== | | | | |

Revenues for the three months ended June 30, 2001 were \$8,016,000, a decrease of \$3,109,000, or 28% from the comparable 2000 period. End-user parts and system sales revenues in the current three-month period amounted to \$6,341,000, a decrease of \$3,008,000 or 32% from the comparable 2000 period. Equipment sales to other resellers in the current three-month period amounted to \$1,175,000, an increase of \$86,000 or 8% from the comparable 2000 period, while service revenues amounted to \$500,000, a decrease of \$187,000 or 27% from the comparable 2000 period. Revenues for the six months ended June 30, 2001 were \$17,310,000, a decrease of \$3,264,000, or 16% over the comparable 2000 period. End-user parts and system sales revenues in the current six-month period amounted to \$13,888,000, a decrease of \$3,146,000 or 18% from the comparable 2000 period. Equipment sales to other resellers in the current six-month period amounted to \$2,264,000, an increase of \$167,000 or 8% from the comparable 2000 period, while service revenues amounted to \$1,158,000, a decrease of \$285,000 or 20% from the comparable 2000 period.

The Company believes that the reduction in revenues in the year 2001 is primarily attributable to current economic conditions and the slowdown in capital spending for technology products, and to some extent the result of a reduction in the Company's sales force due to turnover. Incremental sales of systems generated by InfiNet has helped offset the slowdown in parts sales. The Company expects that its future sales revenues will improve as capital spending for technology products improve, although no assurances can be given.

6

Cost of Revenues and Gross Profit

Total cost of revenues for the three months ended June 30, 2001 were \$6,685,000, a decrease of \$2,299,000 or 26% over the comparable 2000 period. The gross profit for the three months ended June 30, 2001 was \$1,331,000, a decrease of \$810,000 or 38% from the comparable 2000 period. As a percentage of revenue, the consolidated gross profit margin decreased for the three months ended June 30, 2001 to 17% from 19% recorded in the comparable 2000 period. Consolidated gross profit in the current year consisted of a 15% profit margin generated by Farmstead (as compared with 19% recorded in the comparable 2000 period), and a 25% profit margin generated by InfiNet. Excluding InfiNet, Farmstead's gross profit margin was lower than the prior year due to (i) a \$325,000 charge to increase Farmstead's inventory obsolescence reserves to account for reduced demand for certain telecommunications product lines, (ii) a special sales promotional program to sell-off certain overstocked parts at reduced prices, and (iii) lower margins from service revenues.

Total cost of revenues for the six months ended June 30, 2001 were \$13,554,000, a decrease of \$2,927,000 or 18% from the six months ended June 30, 2000. The gross profit for the six months ended June 30, 2001 was \$3,756,000, a decrease of \$337,000 or 8% from the six months ended June 30, 2000. As a percentage of revenue, the consolidated gross profit margin for the six months ended June 30, 2001 increased to 22% from 20% recorded in

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the comparable 2000 period. Consolidated gross profit in the current year consisted of a 21% profit margin generated by Farmstead (as compared with 20% recorded in the comparable 2000 period), and a 24% profit margin generated by InfiNet. Excluding InfiNet, Farmstead's gross profit margin was slightly higher than the prior year due to several factors including a shift in product mix (a higher percentage of end user parts sales were of the more profitable used equipment vs. new equipment); lower labor and overhead costs as a percent of revenues and the discontinuance of an unprofitable equipment repair contract in the prior year.

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

SG&A expenses for the three months ended June 30, 2001 were \$2,320,000, an increase of \$436,000 or 23% over the comparable 2000 period. SG&A expenses for the six months ended June 30, 2001 were \$4,451,000, an increase of \$745,000 or 20% over the six months ended June 31, 2000. As a percentage of revenues, SG&A expenses for the three months ended June 30, 2001 and 2000 were 29% and 17%, respectively. As a percentage of revenues, SG&A expenses for the six months ended June 30, 2001 and 2000 were 26% and 18%, respectively.

The increase in SG&A expenses in the current year periods was primarily attributable to (i) the start-up of InfiNet, which incurred \$114,000 and \$149,000 of SG&A expenses during the three and six month periods ended June 30, 2001, respectively; (ii) higher compensation costs, including expenses incurred in locating, hiring and training new personnel, and \$104,000 of employee termination expenses in connection with the departure of the Chief Operating Officer and a reduction in workforce; (iii) increased bad debt write-offs; (iv) higher legal fees from the use of outside counsel in day-to-day business and contract negotiation matters, as well as one-time legal fees incurred during the current six month period, principally in connection with amending the Company's By-laws and Certificate of Incorporation, establishing an employee stock purchase plan which was approved by stockholders at the June 14, 2001 annual meeting, and in various other corporate governance matters; (v) higher net product marketing expenses, attributable to reduced Avaya marketing cost reimbursements under an Avaya-sponsored co-op marketing program; (vi) increased sales travel and entertainment expenses; and (vii) higher insurance premiums.

In July, 2001 the Company effected a second reduction in its workforce, reducing the number of employees by approximately 15%. The Company is also reviewing its SG&A expenses in an effort to take whatever cost-cutting measures it deems appropriate in light of current sales levels.

Interest Expense, Other Income and Minority Interest

Interest expense for the three months ended June 30, 2001 was \$42,000, as compared to \$84,000 for the comparable 2000 period. Interest expense for the six months ended June 30, 2001 was \$83,000 as compared to \$199,000 for the six months ended June 30, 2000. The decrease in interest expense in both current year periods was attributable to both lower average bank borrowings, and lower borrowing costs. During the six months ended June 30, 2001, average bank borrowings approximated \$2.1 million at an average borrowing rate of 7.5%, compared with average bank borrowings of \$3.8 million at an average borrowing rate of 9.9% for the same six-month period of 2000.

Other income for the three months and six months ended June 30, 2001 and 2000 consisted primarily of interest earned on invested cash.

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Minority interest of \$109,000 and \$201,000 for the three and six months ended June 30, 2001 represents the 49.9% share of the net income of InfiNet accruing to its minority partner.

7

Liquidity and Capital Resources

Working capital was \$8,215,000 at June 30, 2001, a decrease of \$680,000 or 7.6% from \$8,895,000 at December 31, 2000. The working capital ratio was 3.1 to 1 at June 30, 2001, compared with 2.7 to 1 at December 31, 2000.

Operating activities provided \$623,000 during the six months ended June 30, 2001, principally as a result of a decrease in accounts receivable, partially offset by a decrease in accounts payable, accrued expenses and other current liabilities. Investing activities used \$89,000 in the purchase of property and equipment.

Financing activities used \$15,000, principally from repayments of the capital lease obligation. The Company's loan agreement with its bank contains certain financial covenants, and the Company was in compliance with these covenants at June 30, 2001. As of June 30, 2001, the unused portion of the revolving credit facility was approximately \$6,300,000, of which approximately \$1,897,000 was available under various borrowing formulas. The average and highest amounts borrowed during the three months ended June 30, 2001 were approximately \$2.3 million and \$2.9 million, respectively. The average and highest amounts borrowed during the six months ended June 30, 2001 were approximately \$2.1 million and \$2.9 million, respectively.

The Company is currently dependent upon its existing credit agreements and accounts receivable collection experience to provide cash to satisfy its working capital requirements. Material changes in its credit agreements, or a slowdown in the collection of accounts receivable, could negatively impact the Company. No assurances can be given that the Company will have sufficient cash resources to finance future growth, and it may become necessary to seek additional financing for such purpose. There are currently no material commitments for capital expenditures.

Safe Harbor Forward-Looking Statements

The Company's prospects are subject to certain uncertainties and risks. The discussions set forth in this Form 10-Q 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 Private Securities Litigation Reform Act of 1995 ("the Act"). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "will be," "will continue," "will likely result," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar words, expressions or phrases of similar meaning. 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. The risks and uncertainties are detailed from time to time in reports filed by the Company with the Securities and Exchange Commission ("SEC") including Forms 8-K, 10-Q, and 10-K, and include, among other factors, general economic conditions and growth in the telecommunications

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industry, competitive factors and pricing pressures, changes in product mix, product demand, risk of dependence on third party suppliers, the ability of the Company to sustain, manage or forecast its growth and inventories, performance and reliability of products, customer service, adverse publicity, business disruptions; increased costs of freight and transportation to meet delivery deadlines, changes in business strategy or development plans, turnover of key employees, and other risk factors detailed in this report, described from time to time in the Company's other SEC filings, or discussed in the Company's press releases. In addition, other written or oral statements made or incorporated by reference from time to time by the Company or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise are forward-looking statements within the meaning of the Act. 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.

The risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material information unless such information shall have been previously or is simultaneously disclosed in a manner intended to provide broad, nonexclusionary distribution of the

8

information to the public. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risks which have the potential to affect the Company's earnings and cash flows result primarily from changes in interest rates. The Company's cash equivalents, which consist of an investment in a money market fund consisting of high quality short term instruments, principally US government and agency issues and commercial paper, are subject to fluctuating interest rates. A 10 percent change in such current interest rates would not have a material effect on the Company's results of operations or cash flow.

The Company is also exposed to market risk from changes in the interest rate related to its revolving credit facility, which is based upon a 30-day average LIBOR rate. Assuming an average borrowing level of \$2.3

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million (which amount represented the average amount borrowed under the revolving credit facility during the three months ended June 30, 2001), each 1 percentage point increase in the bank's lending rate would result in \$23,000 of additional annual interest charges. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On February 28, 2001, the Board of Directors of the Company amended and restated the By-laws of the Company in order to, among other things, (i) adopt an advanced notice provision for nominations or other business to be properly brought before an annual meeting by Stockholders; (ii) eliminate the right of Stockholders to call special meetings; (iii) provide that a quorum is a majority of shares entitled to vote, present, in person, or represented by a proxy; (iv) amend the section pertaining to indemnification of officers, directors, and employees; (v) require a super majority vote of Stockholders to further amend the Amended and Restated By-laws, in certain instances. A copy of the Amended and Restated By-laws of the Company was filed as Exhibit 3(d) to the Annual Report on Form 10-K for the period ending December 31, 2000.

On June 14, 2001, the Stockholders of the Company approved amendments to the Company's Certificate of Incorporation in order to, among other things, (i) require a super majority vote of Stockholders to further amend the Certificate of Incorporation, in certain instances; (ii) create a classified (aka "staggered") Board of Directors; (iii) amend the section pertaining to indemnification of officers, directors, and employees; and (iv) eliminate the right of Stockholders to act by written consent or to call special meetings.

On July 18, 2001, the Company extended the expiration date of its Class A and Class B Redeemable Common Stock Purchase Warrants (the "Warrants") from August 12, 2001 to June 30, 2002. There are currently 1,137,923 of each class of Warrants outstanding, currently entitling the holders to acquire one share of Common Stock at an exercise price of \$2.00 per share. The Company also extended the expiration date of its 89,948 outstanding Representative Warrants from September 16, 2001 to June 30, 2002. The Representative Warrants entitle the holder 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 1996 to the Company's underwriter in connection with a secondary offering of securities.

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

The proposals voted upon at the Company's Annual Meeting of Stockholders, held June 14, 2001, along with the voting results, were as follows:

- (1) Election of Directors: All nominees were elected: The results of the balloting were as follows:

| Nominees | Votes For | Votes Withheld |
|-----------------------|--------------|-------------------|
| George J. Taylor, Jr. | 2,968,636 | 127,778 |
| Harold L. Hanson | 2,964,936 | 131,478 |

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9

| | | |
|-------------------|-----------|---------|
| Hugh M Taylor | 2,967,886 | 128,528 |
| Joseph J. Kelley | 2,968,036 | 128,378 |
| Bruce S. Phillips | 2,968,336 | 128,078 |

- (2) Approval of the Amendments to the Certificate of Incorporation: The proposal was approved with 899,514 votes for, 176,992 votes against, 3,124 abstentions and 2,016,766 not voted.
- (3) Approval of the 2001 Employee Stock Purchase Plan: The proposal was approved with 754,782 votes for, 315,633 votes against, 9,233 abstentions and 2,016,766 not voted.
- (4) Ratification of the appointment of Deloitte & Touche LLP as independent auditors of the Company for the year ending December 31, 2001: The proposal was approved with 3,020,161 votes for, 73,142 votes against, and 3,111 abstentions.

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

(a) Exhibits:

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

- 3(e) Certificate of Amendment of Certificate of Incorporation of Farmstead Telephone Group, Inc., dated July 9, 2001.
- 4(j) Resolutions adopted by the Company's Board of Directors July 19, 2001, amending terms of Warrants and Underwriter's Options.
- 10(hh) Farmstead Telephone Group, Inc. 2001 Employee Stock Purchase Plan [Appendix B to the Proxy Statement on Schedule 14A filed April 13, 2001 for the 2001 Annual Meeting of Stockholders]
- 21 Subsidiaries

- (b) Reports on Form 8-K: On July 18, 2001, the Company filed Form 8-K indicating that the Board of Director's approved extending the expiration of the Redeemable Class A (FTG. WS.A) and Class B (FTG.WS.B) Common Stock Purchase Warrants from August 12, 2001 to June 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMSTEAD TELEPHONE GROUP, INC.

Dated: August 10, 2001

/s/ George J. Taylor, Jr.

George J. Taylor, Jr.
Chief Executive Officer, President

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Dated: August 10, 2001

/s/ Robert G. LaVigne

Robert G. LaVigne
Executive Vice President,
Chief Financial Officer

10