FARMSTEAD TELEPHONE GROUP INC
Form 10-K
April 12, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

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 (I.R.S. Employer Identification No.)
22 Prestige Park Circle, East Hartford, CT (Address of principal executive offices)	06108-3728 (Zip Code)

Registrant's telephone number, including area code: (860) 610-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock, $.001 par value	NASD: Over-the-Counter Bulletin Board

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]   No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [X]   No [ ]

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X]   No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.   [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [x]

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [ ]   No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold , as of the last business day of the registrant's most recently completed second fiscal quarter, was $3,387,242.

As of March 24, 2006, the registrant had 3,936,032 shares of $0.001 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain exhibits filed with this registrant's prior registration statements and forms 10-K, 10-Q and 8-K are incorporated by reference into Part IV of this Report.

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PART I

ITEM 1. BUSINESS

GENERAL

Farmstead Telephone Group, Inc. ("Farmstead", the "Company", "we", or "our") was incorporated in Delaware in 1986. We are principally engaged as a provider of new and used Avaya, Inc. ("Avaya") business telecommunications parts, complete systems, and services. From December 1998 to the program's termination in July 2004, we provided refurbished "Classic Lucent(TM)" and "Classic Avaya(TM)" telecommunications equipment pursuant to an "Authorized Remarketing Supplier Program" with Lucent Technologies and Avaya. Since the termination of this program, we have continued to supply refurbished equipment to our customers. We also offer Avaya's full-line of new telecommunications parts and complete systems as an Avaya-certified "Platinum Dealer". Our service revenues are under the aegis of our "2 Star" Avaya Services Agreement. Our product offerings are primarily customer premises-based private switching systems and peripheral products, including voice messaging products. We also provide telecommunications equipment installation, repair and refurbishing, short-term rental, inventory management, and related value-added services. A portion of our revenues is also derived from the sale of Avaya maintenance contracts. We sell our products and services to large and mid-size, multi-location businesses, as well as to small businesses, government agencies, and other equipment resellers. This business segment has been referred to in this document as the "Legacy Telecommunications Equipment Business" or the "Telecommunications Equipment Business".

Effective February 1, 2001, we 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, we had a 50.1% ownership interest, and TriNET had a 49.9% ownership interest. Based in East Hartford, Connecticut, 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. Effective January 1, 2002, we acquired TriNET's 49.9% ownership interest in InfiNet. During 2002, however, we changed our business strategy concerning the use of InfiNet, downsizing its operating activities by eliminating its entire workforce and fulfilling systems sales orders directly through Farmstead, which acquired its own systems dealer license in 2002. As a result, InfiNet has since been inactive, and the company was dissolved effective December 31, 2005.

Our operating results have declined significantly over the past several years, with the Company incurring net losses of $3,314,000, $1,424,000 and $709,000 for the years ended December 31, 2005, 2004 and 2003 on revenues of $15.2 million, $12.3 million and $14.9 million, respectively. Although the Company experienced a 23% improvement in revenues in 2005 as compared to 2004, revenues and profit margins have been impacted by reduced business spending by our larger customers on enterprise communications equipment coupled with intense competition between the

Company and other telecommunications equipment dealers and aftermarket resellers.

Beginning in the fourth quarter of 2004, and continuing throughout 2005, we have been implementing a strategic redirection, which is principally based upon building a larger and more highly qualified sales force, and diversifying the Company's product offerings and targeted customers. The business strategy is to transition to a full communications solutions provider, becoming less dependent on parts sales, and developing more sources of recurring revenues. During 2005, we expanded our product offerings beyond traditional voice communications products by offering Internet Protocol, or IP, telephony products and unified communications products including voice messaging, and we expanded our customer base and began generating incremental revenues by targeting the small to medium-sized (under 200 employees) business market ("SMB").

Effective March 1, 2005 we launched a program to market SMB products and services nationally. In connection therewith we significantly increased our direct sales force and support staff, including the hiring of several former Avaya sales and support professionals already engaged in this market sector.

In May, 2005, we formed a wholly-owned subsidiary named One IP Voice, Inc. ("OIPV"). OIPV was formed to provide carrier-based VoIP telephony solutions along with network services. Its primary target market is the SMB market. OIPV's product offerings include Hosted IP Centrex and IP Trunking services, bundled with

private OIPV "last mile" connectivity on a national basis, long distance calling, On Net calling, local area calling, 911 capabilities and Wide Area Network ("WAN") voice and data connectivity. Since its formation, OIPV has achieved several business plan milestones, including the hiring of key management personnel and the completion of the initial buildout of its first feature server platform, located in Denver, Colorado. In January 2006, the Company launched the national marketing of OIPV's products and services. The OIPV business is critical to the Company's future business strategy and will require significant capital in order to achieve success. This business segment has been referred to in this document as the "IP Telephony Business".

VoIP Industry Overview

Voice over Internet Protocol, commonly referred to as "VoIP", is a technology that enables communications over layer 3 based networks, taking advantage of the convergence of voice, video and/or other media into data packets that can be efficiently transmitted over layer 3 networks and then converted back into the original media at the other end. Data networks, such as the Internet or local area networks, have always utilized packet-switched technology to transmit information between two communicating terminals (for example, a PC downloading a page from a web server, or one computer sending an e-mail message to another computer). The most common protocol used for communicating on these packet switched networks is IP. VoIP allows for the transmission of voice along with other data over these same packet switched networks, and provides an alternative to traditional telephone networks, which use a fixed, and costly, electrical path to carry voice signals through a series of switches to a destination.

As a result of the potential cost savings and added features of VoIP, consumers, enterprises, traditional telecommunication service providers and cable television providers are viewing VoIP as the future of telecommunications. VoIP has experienced significant growth in recent years due to:

* Demand for lower cost telephone service;
* Improved quality and reliability of VoIP calls due to technological advances, increased network development and greater bandwidth capacity;
* New product innovations that allow VoIP providers to offer services not currently offered by traditional telephone companies; and
* The advantage of a single infrastructure to transmit all communications applications, instead of the traditional method of separate networks for each application.

The traditional telephone networks maintained by many local and long distance telephone companies were designed solely to carry low-fidelity audio signals with a high level of reliability. Although these traditional telephone networks are very reliable for voice communications, these networks are not well suited to service the explosive growth of digital communication applications for the following reasons:

* They are expensive to build because each subscriber's telephone must be individually connected to the central office switch, which is usually several miles away from a typical subscriber's location;
* They transmit data at very low rates and resolutions, making them poorly suited for delivering high-fidelity audio, entertainment-quality video or other rich multimedia content;
* They use dedicated circuits for each telephone call, which allot fixed bandwidth throughout the duration of each call, whether or not voice is actually being transmitted; and
* They may experience difficulty in providing new or differentiated services or functions, such as video communications, that the network was not originally designed to accommodate.

Until recently, traditional telephone companies have avoided the use of packet switched networks for transmitting voice calls due to the potential for poor sound quality attributable to latency issues (delays), jitter, and lost packets which can prevent real-time transmission. Recent improvements in packet switch technology, compression and broadband access technologies, as well as improved hardware and provisioning techniques, have significantly improved the quality and usability of packet-switched voice calls.

Packet-switched networks have been built mainly for carrying non real-time data. The advantages of such networks are their efficiency, flexibility and scalability. Bandwidth is only consumed when needed. Networks can be built in a variety of configurations to suit the number of users, client/server application requirements and desired availability of bandwidth and many terminals can share the same connection to the network. As a result, significantly more traffic can be transmitted over a packet switched network than a circuit-switched telephony

network. Packet switching technology allows service providers to converge their traditionally separate voice and data networks and more efficiently utilize their networks by carrying voice, video, fax, and data traffic over the same network. The improved efficiency of packet switching technology creates network cost savings that can be passed on to the consumer in the form of lower overall communications rates.

The growth of Internet technology in recent years has proven the scalability of these underlying packet switched networks. As broadband connectivity, including cable modem and digital subscriber line, or DSL, has become more available and less expensive, it is now possible for service providers like us to offer voice and video services that run over these IP networks to businesses. Providing such services has the potential to both substantially lower the cost of telephone service and equipment costs to these customers, and to increase the breadth of features available to our subscribers.

A technology research firm has estimated that North American VoIP service revenues approximated $1.3 billion in 2004 and are expected to increase to $19 billion by 2009. Another research firm has reported that the market for VoIP equipment sold to corporations and other enterprises, including phones, hardware and software, grew 78% to $3.07 billion in 2004, and is seen rising to nearly $11 billion in sales by 2009. Still another research study shows that 23% of SMBs, of which there are approximately 22 million in the U.S., are already using VoIP technology and the study expects their share to grow to 50% by 2008, with the majority of SMBs to switch their networks at least partially to VoIP within the next five years. VoIP solutions are finding particular favor within SMBs, as a recent study indicated that 70% indicated they would prefer a hosted VoIP solution to a premises-based one.

Businesses are installing VoIP systems in hopes of saving money on their telephone bills. Beyond costs, customers demand intelligent VoIP features, such as being able to customize how calls are answered, and universal voice mail. In addition, the VoIP market growth will be driven by carrier footprint and solution expansion, marketing and service bundling, which will lead to greater adoption by new business, government, education, residential and small-office/home-office (SOHO) customers.

Strategy

Since October 1, 2004, the Company has focused its efforts in two specific areas. The first was to stabilize and grow the Company's 'core' telecommunications equipment business, and the second was to strategically re-direct the Company to become a carrier-based provider of VoIP solutions to the SMB market. To date we have made significant progress in both of these areas, and they remain as key strategic objectives.

Our goal is to transition the Company, through its OIPV subsidiary, to become the largest domestic provider of hosted IP services to the SMB marketplace, providing "best in class", profitable and reliable products and services. We will accomplish this by offering complete bundled offerings to the end-user customer inclusive of:

* private network
* feature sets and voicemail
* data and telephony products
* ordering, implementation and billing
* installation by interconnect business partners
* on going management of all products and services post-installation

We believe that our competitive advantage is based on our ability to (i) deliver voice and data services over a private network, versus the internet, thereby offering dynamic, secure dedicated bandwidth, including "last mile connectivity", to each individual customer location; and (ii) bundle all the necessary components for implementation at the customer location including routers, gateways, LAN switches, analog telephone adapters, and telephones.

In addition, a key strategy is to market our products and services through the utilization of indirect channel partners, including interconnect businesses, of which there are approximately 9,000 in the U.S. Our interconnect business partners will provide the sales channel, installation and maintenance services in the field for the end user customer locations.

In May, 2005, we formed OIPV to provide carrier-based VoIP Telephony solutions along with network services. Its primary target market will be the SMB market. As further described below, OIPV's product offerings will include Hosted IP Centrex and IP Trunking services, bundled with private OIPV "Last Mile" connectivity on a

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national basis, long distance calling, On Net calling, local area calling, 911 capabilities and Wide Area Network (WAN) voice and data connectivity. Since its formation, OIPV has achieved several business plan milestones, including the hiring of key management personnel and the completion of the initial buildout of its first feature server platform, located in Denver, Colorado. In January 2006, the Company launched the national marketing of its IP telephony product offerings.

PRODUCTS

Telecommunications Equipment Business:

EQUIPMENT

We sell a wide range of Avaya's traditional voice telephony parts and systems, including Avaya's most advanced enterprise voice communications system marketed under the DEFINITY(R) and MultiVantage product lines. These server based product lines provide reliable voice communication and offer integration with an enterprise's data networks. They support a wide variety of voice and data applications such as call and customer contact centers, messaging and interactive voice response. This product also facilitates the ongoing transition at many enterprises from traditional voice telephony systems to advanced systems that integrate voice and data traffic and deploy increasingly sophisticated communications applications, including "voice over internet protocol (VoIP)", popularized with Avaya's IP Office product family. For smaller enterprises or small locations of larger ones, we offer Avaya's, medium to small user voice communications products, marketed under the MERLIN MAGIX(TM), SPIRIT(R) and PARTNER(R) Communications Systems product families. We also offer Avaya voice messaging and unified messaging products such as OCTEL(R) Messaging and INTUITY(TM) AUDIX(R) Messaging, as well as the latest messaging release called Modular Messaging.

Equipment sales consist of both new and refurbished parts (commonly referred to as "aftermarket" sales), complete systems and software applications. Aftermarket parts primarily consist of telephone sets and circuit packs, and other system accessories such as headsets, consoles, speakerphones and paging systems. Equipment sales revenues accounted for approximately 79%, 89% and 87% of total revenues in 2005, 2004 and 2003, respectively.

SERVICES AND OTHER REVENUE

We are committed to respond to our customers' service or project-oriented telecommunications needs, and believe these services help differentiate us from our competitors, as well as contribute to longer-lasting customer relationships and incremental equipment sales. Services include:

Installation Services: We use Avaya and other equipment installation companies on a subcontract basis to install telecommunication parts and systems nationwide, as well as to perform equipment moves, adds and changes.

Repair and Refurbishing: We perform fee-based telecommunications equipment repair and refurbishing services. Until 2003, these services were provided through a combination of our in-house refurbishing center and the use of subcontract repair shops. The in-house work primarily consisted of cleaning, buffing and minor repairs, while major repairs of equipment, including repair of circuit boards, was outsourced. By the end of 2003, we had outsourced all equipment repair and refurbishing services to outside repair shops.

Equipment Rentals: We provide rentals of equipment on a month-to-month basis, servicing those customers that have temporary, short-term equipment needs.

Other Services: Our technical staff currently provides system engineering and configuration, project management, and technical "hot line" telephone support services.

Other Revenue: A portion of our revenues is derived from commissions received on the sale of Avaya communications equipment maintenance contracts. In these transactions, once the contract is executed, we receive a one-time commission, and all future service obligations are borne entirely by Avaya.

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Service revenues accounted for 15%, 8% and 10% of total revenues in 2005, 2004 and 2003, respectively, primarily attributable to installation services. Other revenues accounted for 6%, 3% and 3% of revenues in 2005, 2004 and 2003, respectively.

IP Telephony Business:

One IP Voice offers a complete suite of product and service offerings to address the voice and converged communications requirements of the business community. Unlike other providers that focus in a specific segment of the VoIP marketplace, we provide a true "one stop shopping" experience for businesses which would include the system/network configuration plan, equipment ordering, installation and training.

Our core products include: One IP Voice (hosted PBX); IP Connect (Trunking migration strategy for traditional PBX's), One IP Net, (WAN deployment with converged functionality through Voice over Intelligent Protocol, our private IP network) and SIP Direct Connect.

Supporting products include SIP telephones, soft phones for your computer, edge devices for bandwidth allocation, fail over protection for network connectivity and software applications such as automatic call distribution that address the special requirements of many businesses.

One IP Voice: provides hosted PBX Class 5 Plus features offered by our carrier grade soft switch feature server that includes find-me, follow-me; phone customization; single number/single mailbox for mobile users; and standards-based interface to MS Outlook. Users have access to One IP Voice through our internet-based portals.

IP Connect: provides Trunking network connection options for traditional PBX's to take advantage of on net dialing, local and long distance calling plans and Universal Messaging.

One IP Net: is our private IP network ("Voice over Intelligent Protocol" TM pending) that enables our business partners to provide their customers with private, dedicated, and secure bandwidth that offers QoS ("Quality of Service"), guaranteed CIR, bandwidth allocation and optional fail over-protection. It does not touch the internet.

SIP ("Session Initiated Protocol") Direct Connect: allows an end user the option of retaining the capital investment in its existing station equipment while migrating to IP technology.

The IP Connect and SIP Direct Connect offerings provide our channel partners with a clear migration strategy for their imbedded base of customers to move to an IP based model.

RELATIONSHIP WITH AVAYA INC.

Avaya is one of the leading providers of communications products in the United States. Avaya provides support to its dealer network and to the telecommunications equipment aftermarket by providing installation and maintenance services, technical and marketing support. Avaya also provides up to a one-year warranty on its products.

We are currently one of several hundred independent companies in the United States who are authorized "Dealers" of Avaya products and services. We are an Avaya-certified "Platinum Dealer", selling new voice and data systems and applications nationwide. Platinum Dealer status also allows us certain product purchasing discounts, and participation in incentive rebate programs based upon purchasing volume and other cash incentive programs connected with eligible business development and marketing initiatives. We are also a "2 Star" Services partner selling Avaya installation, maintenance, and moves, adds and changes (MAC) products. Our various dealer agreements with Avaya principally contain language governing the products we are authorized to sell, the territories in which we can sell these products, our price structure under which we are charged for purchases of their products for resale, the level of technical product knowledge we are required to maintain, and product warranty and support provisions. No agency relationship has been created in these agreements. These provisions apply to the sale of both new and used products.

Until July 2004, we also had separate agreements with Avaya which granted us a license to sell used equipment branded with a "Classic Avaya" label. Under these agreements, we refurbished equipment to "like new" condition under their quality standards, remarketing the finished product as "Classic Avaya" equipment. This process was under the umbrella of an "Authorized Remarketing Supplier" aftermarket program (initiated by Avaya's predecessor, Lucent Technologies several years ago), in which we were one of only five other companies nationwide authorized to refurbish and resell Avaya product under their "Classic" trademark. As consideration for this right, we paid Lucent/Avaya a license fee, calculated as a percentage (which varied over the term of the agreement) of the sales price of equipment sold with the "Classic" label. Effective July 30, 2004, Avaya terminated this program, and we discontinued affixing their label to the used equipment that we sell. We recorded in cost of revenues approximately $110,000 and $323,000 of fee expense in 2004 and 2003, respectively. The revenues generated and subject to these license fees approximated 11% (21% at the time of contract termination) and 29% of total revenues for 2004 and 2003, respectively. The termination of this program has not had a material adverse impact on our operations. Since the beginning of 2004, we have sold refurbished equipment branded with our own "Farmstead Certified" label for which we have received widespread customer acceptance since Avaya continues to maintain and service this equipment.

We believe that we have an excellent relationship with Avaya, and that Avaya will continue to support us in the sale of their products and services.

SALES AND MARKETING

We market our legacy telecommunications equipment product offerings nationally through a direct sales staff, which includes salespersons located throughout the United States. Since 1999, we have also marketed Avaya products through a call center operation. Our customers range from large and mid-sized, multi-location corporations, to small companies, and to equipment wholesalers, dealers, and government agencies and municipalities. End-user customers accounted for approximately 97%, 87% and 91% of our total revenues in 2005, 2004 and 2003, respectively, while sales to dealers and other resellers accounted for approximately 3%, 13% and 9% of revenues during the same respective periods. During the year ended December 31, 2005, one customer accounted for 12% of revenues. During the years ended December 31, 2004 and 2003, no single customer accounted for more than 10% of revenues. We do not consider our business to be seasonal.

OIPV's product offerings are marketed nationally, primarily through business partner agreements with established telecommunications equipment providers. The traditional telephone system providers, known as Interconnect Companies, are accountable for the sale, installation and service of a majority of the business telephone systems in this country. They are the single source for their customer to contact. We have targeted this group of over 9,000 interconnect companies to bring our OIPV offering to market. They have established relationships with their customers. We offer a robust annuity compensation package based on a utility model. We give them the opportunity to save their greatest asset, their base of customer accounts, with VoIP migration strategies and hosted PBX replacement products that are not manufacturer-specific.

COMPETITION

We operate in a highly competitive marketplace. Over the years, our marketplace has become subject to more rapid technological change as communications systems have been evolving from standalone voice systems to more highly integrated, software-driven systems.

Telecommunications Equipment Business:

Our legacy telecommunications business principally sells Avaya products, therefore our competitive position in the marketplace is highly dependent upon Avaya's ability to continue to be a market leader in the product lines that we sell. Our competitors principally include Avaya and other new equipment manufacturers that similarly compete against Avaya products, including Nortel Networks Corporation, Siemens Aktiengesellschaft, Alcatel S.A. and NEC Corporation along with their local and regional dealers, and the other Avaya business partners. We believe that key competitive factors in this market are price, timeliness of delivery, service and product quality and reliability. Due to the reduction in business capital spending on telecommunications products, which has developed in the U.S. over the past few years, competitive pressures have intensified. We also anticipate intensified competition from larger companies having substantially greater technical, financial and marketing resources, as well as larger customer bases and name recognition. As the industry further develops voice and data converged products,

we anticipate encountering a broader variety of competitors, including new entrants from related computer and communication industries.

IP Telephony Business:

The Company competes against many companies in the VoIP industry including providers of hosted offerings such as AT&T, Callvantage, MCI Advantage, Voiceone, Net2Phone, Cbeyond, Covad and Vonage; cable television companies, such as Cablevision, Cox and Time Warner, incumbent telephone carriers, such as SBC and Verizon and other providers of traditional and legacy telephone service. While competition will be intense in this burgeoning industry, we believe that our products will effectively compete because we are delivering a complete product and service offering to the SMB business segment.

SUPPLIERS

Telecommunications Equipment Business:

Our agreement with Avaya requires us to purchase new equipment from a designated "master distributor". The performance of our master distributor in meeting our product and delivery demands has been satisfactory to date. Should there be an adverse change in this company's performance, we would have the ability to contract with another "master distributor" to supply us with new Avaya telecommunications equipment.

We acquire used equipment from a variety of sources, depending upon price and availability at the time of purchase. These sources include other aftermarket equipment dealers, leasing companies and end-users. The equipment so acquired may be in a refurbished state and ready for resale, or it may be purchased "as-is", requiring repair and/or refurbishing prior to its resale. We are not dependent upon any single supplier for used equipment. The Company believes that the number of aftermarket suppliers and availability of used equipment in the marketplace is presently sufficient to enable the Company to meet its customers' used equipment delivery requirements.

IP Telephony Business:

We rely upon independent third party providers and manufacturers of the equipment, networks and software that are integrated into our product offerings. Should we experience availability and/or reliability problems with our current suppliers, there are alternative sources in the marketplace that could meet our availability and reliability requirements.

TECHNOLOGY

OIPV bases its technology foundation on open systems architecture which would not limit us to any particular manufacturer's product sets. We believe integrated "best in class" products allow for flexibility with future growth as VoIP matures.

We rely upon independent third party providers and manufacturers of the equipment, networks and software that are integrated into our product offerings. As such, resources dedicated to internal research and development are not expected to be material. Our National Operations Center ("NOC") located in Denver, CO, however, will consistently test and monitor our vendors' software releases prior to launching into production, in order to evaluate and eliminate any possible errors to our customers. In addition, our NOC tests and evaluates related products from various manufacturers to ensure that our products maintain state of the art technology. We are party to telecommunications interconnect and service agreements with VoIP providers and public switched telephone network ("PSTN") telecommunications carriers. Pursuant to these agreements, VoIP calls originating on our network can be terminated on other VoIP networks or the PSTN. Correspondingly, calls originating on other VoIP networks and the PSTN can be terminated on our network.

We realize that availability and reliability is a cornerstone to our success and we have incorporated redundancy into our platform. Our platform is housed in a Tier one hosting facility providing state of the art Security, Power, Cooling, Fire suppression and Overhead cable management. In addition to the physical facility there are several levels of redundancy built into the One IP Voice solution. The collocation center houses many carriers which

provide for redundant data paths out of the building with multiple carriers to choose from. The platform itself has redundancy as well, with call agents and admin servers being fully mirrored and in hot standby mode. The One IP Net offering has full layer 2 and 3 redundancy, as well as geographic separation and redundancy. The Session Border controllers are fully redundant.

PATENTS, LICENSES AND TRADEMARKS

Patents: We hold no patents in either our legacy telecommunications business or our new IP telephony business.

Licenses: We currently rely upon certain technology, including hardware and software, which is licensed from third parties. These licenses are for our hosted feature and voice mail applications, and are purchased on a "per seat" basis. As applications are added, we may be subject to further licensing arrangements with other parties.

Trademarks: We have applied for the following trademarks with the U.S. Patent and Trademark Office: "Voice Over Intelligent Protocol", "One IP Voice" and "1 IP Voice".

We presently use a "Farmstead Certified" label on our used equipment, but this has not been trademarked or registered.

RESEARCH AND DEVELOPMENT

We did not incur any research and development expenses during the three years ended December 31, 2005, and research and development activities are not material to our business. See "Technology" section above.

BACKLOG

The backlog of unshipped orders believed to be firm was approximately $400,209 at December 31, 2005, compared to $182,000 at December 31, 2004. We expect this entire backlog to ship and be recognized as revenue during the current fiscal year.

EMPLOYEES

At December 31, 2005, we had 72 employees. Our employees are not represented by any organized labor union and are not covered by any collective bargaining agreements.

WEBSITE ACCESS TO SEC FILINGS

We maintain Internet websites at www.farmstead.com and www.oneipvoice.com. We make available free of charge through our corporate Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

EXECUTIVE OFFICERS AND KEY EMPLOYEES OF THE REGISTRANT

The executive officers and key employees of the Company are as follows (age as of January 1, 2006):

Name	Age	Position(s)
Executive Officers:		
Mr. Jean-Marc Stiegemeier	60	President & Chief Executive Officer, Chairman of the Board of Directors
Mr. Robert G. LaVigne	54	Executive Vice President, Chief Financial Officer, Secretary and Treasurer

Name	Age	Position(s)
Mr. Alfred G. Stein	61	Executive Vice President
Mr. Nevelle R. Johnson	48	Executive Vice President
Frederick E. Robertson, Jr.,	47	Vice President- Operations
Key Employees:		
Michael R. Dozier	59	Vice President-Sales (One IP Voice)

James A. Hart	44	Vice President-Technology (One IP Voice)
Spence Kiddle	47	Vice President of Business Development (One IP Voice)

See Part III, Item 10 for the biographies of the Company's Executive Officers.

Mr. Dozier, Vice President-Sales of our subsidiary, One IP Voice, Inc. since September 2005. Mr. Dozier has more than 30 years experience developing and managing telecommunications organizations of significant scale and complexity. From 2004 to 2005 he was the Chief Operating Officer ("COO") of IPtimize, Inc. From 2002 to 2004 he was Vice President of Sales and COO of Digital Telecom. From 1999 to 2002 he was the COO of Convergent Communications. From 1996 to 1999 he was the Vice President of Business Development and later President and COO of Tie Communications.

Mr. Hart, Vice President-Technology of our subsidiary, One IP Voice, Inc. since August 2005. Mr. Hart has an extensive background in systems engineering and technology management. From 2004 to 2005 he was Senior Services Consultant for NEC Unified Solutions. In 2004 to 2005 he was an independent consultant, specializing in VoIP related projects for such companies as Goldman Sachs, PowerNetGlobal and PacWest Telecommunications. From 2000 to 2004 he was the Vice President-Technology and Chief Network Architect for ICG Communications. From 1996 to 2000 he was a Consulting Systems Engineer, SE Manager and TAC Engineer for Cisco Systems. From 1995 to 1996 he was a Network Manager at Airborne Express.

Mr. Kiddle, Vice President/ Director of Business Development of our subsidiary, One IP Voice, Inc. since August 2005. Mr. Kiddle has extensive experience in business development, sales and marketing. From 2003 to 2005 he was a Senior Business Development Manager at Avaya, Inc. From 2000 to 2003 he was a sales Director-Major Accounts, and a Staff Director for Senior management at Exp@Nets, Inc. From 1993 to 2000 he served as an SMB Sales manager, Marketing Manager and Staff Director at Lucent Technologies. Prior thereto he served in various sales and sales management positions at AT&T, Inc.

ITEM 1A. RISK FACTORS

Risks, Uncertainties and Other Factors That May Affect Future Results

General Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The following highlights some of the factors that have affected, and/or in the future could affect, our operations. Our prospects are subject to many uncertainties and risks. Management recognizes the challenges that it faces, particularly during this period of diminished sales levels, and has adopted a number of strategies and action steps to deal with its current operating environment. Disclosure of our strategies and action steps is contained in the discussions set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", and elsewhere herein. These risks and uncertainties are also detailed from time to time in reports we file with the SEC, including Forms 8-K, 10-Q, and 10-K, and include, among other factors, the following principal risks:

We have incurred net losses over the last several years and we are uncertain as to our future profitability.

We recorded net losses of $3,314,000, $1,424,000 and $709,000 during the years ended December 31, 2005, 2004 and 2003, respectively. We expect that, due to the buildout of our new carrier-based, hosted IP telephony business as further described below, we will continue to incur operating losses for the foreseeable future, and such losses may be substantial. We will need to generate significant revenue growth to achieve an operating profit.

We are pursuing a significant new business direction - the marketing of carrier-based, hosted VoIP products and related network services - which may not be profitable.

Since the beginning of 2005, we have been devoting significant management and capital resources to the development of this business, and we expect to continue to do so; however we cannot provide assurance that this new business venture will be profitable. Our business model is still being developed, and it has not yet been proven out. There is also no guarantee that we will be successful in generating significant revenues from future sales of our planned IP products and services. If we are not able to generate significant revenues selling into the VoIP telephony market, our business and operating results would be seriously harmed.

We currently have limited cash resources, and we may not have adequate cash or credit lines to finance our current working capital requirements or the buildout of our new IP telephony business.

We are currently dependent upon cash generated from operations, and borrowings under a revolving credit facility, to satisfy our working capital requirements, which have increased since we are incurring costs associated with the development of One IP Voice ("OIPV") and its associated products and service offerings. A material adverse change in our business going forward could prompt our lender to terminate our credit facility. In addition, continued losses will consume our current cash reserves, and negatively affect our ability to obtain additional or replacement financing until we could demonstrate improved operating results or a return to profitability.

Our working capital requirements are expected to significantly increase as we continue the build out of the infrastructure of capital equipment, systems, licenses and personnel required to deploy our hosted VoIP service offerings through OIPV. Our current telephone equipment business does not generate sufficient cash to meet the additional cash requirements of OIPV. In the event that we are unable to obtain sufficient external financing for this project, we may be unable to complete the buildout of the OIPV business as currently planned. No assurances can be given that we will have sufficient cash resources to finance future growth, and it has become necessary to raise additional funds through public and/or private debt and equity financings, which may also not be available to us until operating performance improves, and which may significantly dilute stockholder ownership in us. If, however, we perform according to our expectations, we believe that additional sources of financing would become available to us.

If we are unable to attract and retain key management and sales employees, we will not be able to compete effectively and our business may not be successful.

Our success is highly dependent upon our ability to hire and retain key technical, sales and executive management personnel who have critical industry experience and relationships that we rely on to execute our business plans. Competition for such personnel is currently intense in our industries. If we fail to hire and retain a sufficient number of high-quality personnel, we may not be able to maintain or expand our business.

Risks Attributable to the new IP Telephony Business

The success of our new OIPV business venture is dependent on the growth and public acceptance of VoIP telephony products and services.

As we enter this emerging marketplace, we will be dependent upon future demand for VoIP telephony systems and services. In order for the IP telephony market to continue to grow, several things need to occur. Telephony service providers must continue to invest in the deployment of high speed broadband networks to residential and business customers. VoIP networks must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss, and unreliable bandwidth, so that toll-quality service can be provided. VoIP telephony equipment and services must achieve a similar level of reliability that users of the public switched

telephone network have come to expect from their telephone service. VoIP telephony service providers such as ourselves must offer cost and feature benefits that are sufficient to cause customers to switch away from traditional telephony service providers. Furthermore, end users in markets serviced by recently deregulated telecommunications providers are not familiar with obtaining services from competitors of these providers and may be reluctant to use new providers, such as ourselves. We will need to devote substantial resources to educate customers and end users about the benefits of VoIP telephony solutions in general and our services in particular. If any or all of these factors fail to occur, our business may not be successful.

The VoIP telephony market is subject to intense competition and rapid technological change, and we will depend on new product and service introductions in order to establish, maintain and grow our business.

VoIP telephony is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we will have to offer VoIP telephony products and services that will incorporate the latest technological advancements in features, performance and cost-effectiveness, and respond to changing customer requirements. To that end, we will be reliant upon independent third party providers and manufacturers of the equipment, networks and software that are integrated into our product offerings. In particular, we rely heavily on Straitshot Communications, Inc., a Washington corporation, ("Straitshot") for certain communications services and equipment in connection with our OIPV offering. Our Chairman and CEO, Mr. Stiegemeier, is currently a member of the Board of Directors of Straitshot. In the event that Straitshot was unable or unwilling to provide services or equipment under its agreement with OIPV, service to the Company's customers could be materially impacted.

The Company competes against many companies in the VoIP industry including providers of hosted offerings such as AT&T, Callvantage, MCI

Advantage, Voiceone, Net2Phone, Cbeyond, Covad and Vonage; cable television companies, such as Cablevision, Cox and Time Warner, incumbent telephone carriers, such as SBC and Verizon and other providers of traditional and legacy telephone service. While competition will be intense in this burgeoning industry, we believe that our products will effectively compete because we are delivering a complete product and service offering to the SMB business segment.

Decreasing telecommunications rates may diminish or eliminate our planned competitive pricing structure.

Decreasing telecommunications rates may diminish or eliminate the competitive pricing structure of our services. Telecommunications rates have decreased significantly over the last few years in most of the markets in which we intend to operate, and we anticipate that rates will continue to be reduced. Users who select our services to take advantage of the current pricing differential between traditional telecommunications rates and our rates may switch to traditional telecommunications carriers as such pricing differentials diminish or disappear, and we will be unable to use such pricing differentials to attract new customers in the future. Continued rate decreases could require us to lower our rates to remain competitive and adversely impact our profit margins.

Our success will depend on third parties in our planned distribution channels.

We plan to sell our products primarily through resellers, and we are focusing our business development efforts on establishing distribution channels. Our planned revenues and future growth will depend in large part on sales of our products through reseller and other distribution relationships. We may not be successful in developing these distribution relationships. Agreements with distribution partners may not require minimum purchases or restrict development or distribution of competitive products. In addition, our planned distribution channels may not dedicate sufficient resources or give sufficient priority to selling our products. Our failure to develop distribution channels, the loss of a key distribution relationship or a decline in the efforts of a material reseller or distributor could have a material adverse effect on our business, financial condition or results of operations.

Risks Attributable to our Legacy Telecommunications Equipment Business

Our business is materially impacted by capital spending levels for telecommunications products and services in the United States.

Although the Company experienced a 23% improvement in revenues in 2005 as compared to 2004, revenues have been impacted by reduced business spending by our larger customers on enterprise communications equipment over the last several years. In addition, this environment has resulted in increased pricing and competitive pressures, which have affected revenues and profit margins. If business capital spending for telecommunications products does not improve, or if economic conditions in the U.S. deteriorate, our telecommunications equipment revenues may decline and our operating results will be adversely affected. We remain cautious about the telecommunications product marketplace going forward, and cannot predict whether the level of capital spending for the Company's products will improve in the near term. As a result, we believe that there will be continued pressure on our ability to generate revenue in excess of current levels.

Our Business is heavily dependent upon Avaya, as our primary supplier of equipment for resale.

We primarily sell Avaya telecommunications products and services through various Dealer agreements with Avaya. The Company is dependent upon the quality and price-competitiveness of current Avaya products as well as Avaya's continued development of new products in order to compete. The Company's current sales levels for new parts and systems would be adversely impacted should market demand for these Avaya products significantly decline. Should Avaya's operations deteriorate to the point that it either cannot continue to introduce technologically new products or effectively compete with other equipment manufacturers, our long-term business strategy to continue as an Avaya dealer would be adversely affected. Our new parts and systems sales levels would also be adversely impacted if the Avaya dealer agreements were terminated, or if Avaya eliminated its "Business Partner" programs.

Our gross profit margins vary from period to period.

Our gross profit margins are dependent upon a variety of factors including (1) product mix -gross margins can vary significantly among parts sales, system sales and our various service offerings. The parts business, for example, involves hundreds of parts that generate significantly varying gross profit margins depending upon their availability, competition, and demand conditions in the marketplace; (2) customer mix -we sell parts to both end-users and to other equipment resellers. Our larger "Enterprise" companies often receive significant purchase discounts from Avaya, which could lower our gross margins as we compete against Avaya directly for this business; (3) the level and amount of vendor discounts and purchase rebates available to us from Avaya and its master distributors; (4) excess capacity -as sales volume falls, overhead costs become a higher percentage of sales dollars; (5) competitive pressures -as a result of the slowdown in capital equipment spending in our industry, and the several hundred Avaya dealers nationwide , we have been faced with increased price competition; and (6) obsolescence charges. The combined effect of all of these factors will result in varying gross profit margins from period to period.

Our gross profit margins and operating expenses could be adversely affected by a reduction in purchase discount and other rebate or incentive programs currently offered by Avaya.

As an Avaya Dealer, we receive substantial rebates and other cash incentives from Avaya, based upon volume levels of certain product purchases, which are material to our operating results and which help reduce product purchase costs, market development and marketing expenses. These incentive programs are subject to change by Avaya, and no assurances can be given that they would not be altered so as to adversely impact our profit margins or operating expenses.

Risks Related to our Current Financing Arrangements and Financing Plans:

If we are required to repay our outstanding borrowings under our Secured Revolving Note or Secured Convertible Minimum Borrowing Notes to Laurus at an unexpected time, we could deplete our working capital. An inability to repay the outstanding borrowings when required could require the sale of substantial assets.

Our Secured Revolving Note and Secured Convertible Minimum Borrowing Notes (collectively, the "Notes") with Laurus for a maximum of $3 million, of which $1,832,000 was outstanding at December 31, 2005, are repayable

March 31, 2008, unless sooner converted into shares of our common stock. An Event of Default, as defined under these agreements and including, for example, a change in the Company's financial condition which is deemed to have a "material adverse effect", which is not cured within specified grace periods, can result in the

acceleration of the Note repayments. The Notes are secured by the Company's assets. An inability to repay the Notes when required could result in the sale of substantial of the Company's assets.

Future equity transactions, including exercise of options or warrants and shares issued under convertible notes and equity securities, could depress the market price of our common stock and could result in significant dilution to our existing stockholders.

From time to time, the Company may sell preferred stock and warrants, and convertible debt, to investors in private placements conducted by broker-dealers, or in negotiated transactions. These transactions cause dilution to existing shareholders. Also, from time to time, options are issued to employees and third parties, with exercise prices equal to market. Exercise of in-the-money options and warrants will result in dilution to existing shareholders; the amount of dilution may depend on the spread between market and exercise price, and the number of shares involved. The Company will continue to grant options to employees and consultants with exercise prices equal to market price at the grant date, and in the future may sell restricted stock and warrants, all of which may result in dilution to existing shareholders. As of March 24, 2006, we had 3,936,032 shares of common stock issued and outstanding and we had (i) convertible notes and warrants issued to the Laurus Master Fund, Ltd which could require the issuance of 1,460,630 additional shares of common stock; (ii) shares of Series A convertible preferred stock outstanding which are convertible into 1,945,200 shares of common stock; (iii) warrants issued to investors and the placement agent in connection with the Company's 2006 private placement transactions which could require the issuance of 1,480,591 additional shares of common stock; (iv) warrants issued to the placement agent in connection with the Company's 2006 private placement transactions which could require the issuance of Series A convertible preferred stock which would be convertible into 203,320 shares of common stock; and (v) and outstanding stock options and warrants issued to employees and affiliates which could require the issuance of 3,685,369 additional shares of common stock.

Terms of subsequent financing may adversely impact your investment.

We may have to raise equity by issuing debt or preferred stock financing in the future. Your rights and the value of your investment in our common stock could be reduced. For example, if we continue to issue secured debt, the creditors would have a claim to our assets that would be prior to the rights of stockholders until the debt is paid. Debt service would increase costs and negatively impact operating results. Preferred stock could also be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock offerings could be more advantageous to those investors than to the holders of common stock.

We are currently listed on the Over-the-Counter Bulletin Board.

On November of 2005, the Company received notice from the American

Stock Exchange (the "AMEX") that the Company no longer complied with the AMEX's continued listing standards as set forth in Section 1003 (a) (ii) of the AMEX Company Guide (the "Company Guide"), and that its securities were, therefore, subject to being delisted from the AMEX. The Company was previously granted an eighteen month period to regain compliance with this standard, and such compliance period ended as of November 7, 2005.

The Company subsequently appealed this determination and on December 14, 2005 participated in a formal hearing before an appointed Listing Qualifications Panel (the "Panel"). On December 19, 2005, the Company received written notice from the AMEX that the Panel had affirmed the earlier determination to delist the common stock of the Company. The notice cited that the Company was as of November 7, 2005, and continued to be, not in compliance with (1) Section 1003(a)(i) of the Company Guide as its stockholders' equity was less than $2 million and it had sustained losses from continuing operations and/or net losses in two of its three most recent fiscal years; and (2) Section 1003(a)(ii) of the Company Guide as its stockholders' equity was less than $4 million and it had sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years.

The Company obtained quotation of its securities on the Over-the-Counter Bulletin Board (the "OTCBB") effective December 30, 2005, and its Common Stock is currently listed under the symbol "FTGP". The OTC Bulletin Board(R) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on Nasdaq(R)(R) or a national securities exchange. OTCBB securities include national, regional, and

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foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs).

The recent delisting described above and being listed on the OTCBB could reduce the ability of our shareholders to purchase or sell shares as quickly and as inexpensively as they have done historically. For instance, failure to obtain listing on another market or exchange may make it more difficult for traders to sell our securities. Broker-dealers may be less willing or able to sell or make a market in our common stock which could

* result in a decrease in the trading price of our common stock;
* lessen interest by institutions and individuals in investing in our common stock;
* make it more difficult to obtain analyst coverage; and
* make it more difficult for us to raise capital in the future.

If we are unable to obtain, and/or maintain the effectiveness of the registration statement for the shares underlying the Laurus Minimum Borrowing Notes and Warrants, we may incur substantial financial penalties

Pursuant to the terms of a Registration Rights Agreement with Laurus in connection with the current credit facility, the Company is obligated to file and obtain effectiveness for a registration statement registering the resale of shares of the Company's Common Stock issuable upon conversion of the Laurus Notes and the exercise of the Warrant. If the registration statement is not filed or declared effective in a timely manner, the Company will be subject to certain penalties including a daily penalty at a rate of 2% per month of the outstanding principal amount of any Minimum

Borrowing Notes.

If we sell any securities at an effective price below $1.54 per share, the conversion price of the Laurus convertible notes will be lowered, resulting in additional dilution to stockholders

Pursuant to our convertible note agreements with Laurus, if we issue securities at a price that is lower than the then current conversion price, which was $1.54 as of December 31, 2005, the conversion price applicable to Laurus would be lowered to this amount. If this occurs, stockholders may incur substantial additional dilution as a result of the potential issuance of additional securities upon conversion. In January 2006 Laurus's conversion price was in fact lowered to $1.27 from $1.54 as a result of the issuance of warrants to investors at a $1.27 exercise price.

Other Risks:

In addition to the specific risks and uncertainties discussed above, our future operating performance can also be affected by: performance and reliability of products; the maintenance of our level of customer service and customer relationships; adverse publicity; business disruptions; acts of terrorism within the U.S., and the impact of those acts on the U.S. economy; and other events that can impact revenues and business costs. The risks included here are not exhaustive. Other sections of this report may include additional factors, which could adversely affect our business and financial performance. Moreover, we operate 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.

Stockholders should also be aware that while we do, from time to time, communicate with securities analysts, it is against our 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, non-exclusionary distribution of the information to the public. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we have 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 our responsibility.

We may be subject of securities class action litigation due to future stock price volatility.

In the past, when the market price of a stock has been volatile, holders of that stock have often instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management.

Provisions of Delaware law could delay or prevent a change of control.

As a Delaware corporation, we are subject to the General Corporation Law of the State of Delaware, including Section 203, an anti-takeover law enacted in 1988. In general, Section 203 restricts the ability of a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder. Subject to exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of a corporation's voting stock. As a result of the application of Section 203, potential acquirers may be discouraged from attempting to acquire us, thereby possibly depriving our stockholders of acquisition opportunities to sell or otherwise dispose of our stock at above-market prices typical of acquisitions.

The price of our common stock could be volatile.

Prior to December 30, 2005, our stock traded on the AMEX. Since that time, our common stock has traded on the OTCBB. It has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of our common stock without regard to our operating performance. In addition, the trading price of our common stock could be subject to significant fluctuations in response to actual or anticipated variations in our quarterly operating results, announcements by us or our competitors, factors affecting the telecommunications industry generally, changes in national or regional economic conditions, changes in securities analysts' estimates for our competitors' or industry's future performance or general market conditions. The market price of our common stock could also be affected by general market price declines or market volatility in the future or future declines or volatility in the prices of stocks for companies in our industry.

We do not intend to pay dividends in the foreseeable future.

We have never declared or paid a dividend on our common stock. We intend to retain earnings, if any, for use in the operation and expansion of our business and therefore do not anticipate declaring or paying any dividends in the foreseeable future.

Our directors and management will exercise significant control over our Company.

Our directors and executive officers and their affiliates collectively control or beneficially own approximately 47% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. The concentration of ownership may have the effect of delaying or preventing a change in control of our company and might affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices and warehouse facility are located in a single-story building located in East Hartford, Connecticut in which we lease 25,051 square feet. The lease contract, which expires December 31, 2014, contains one five-year renewal option. The lease also allows us the one-time option to terminate the lease without penalty on December 31, 2009. We maintain a sales office in New York, New York, leasing approximately 1,700 square feet under a non-cancelable lease expiring May 31, 2007.

Our One IP Voice feature server platform is collocated in a facility owned and operated by Level 3 Communications (NASDAQ: LVLT) in Denver, Colorado, under a one-year agreement expiring August 29, 2006.

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Our One IP Voice National Operations Center is located in Denver, Colorado, where we lease 2,684 square feet in an office park under a 26-month lease expiring January 31, 2008. The lease contract contains one three-year renewal option.

If new or additional space is required, we believe that adequate facilities are available at competitive prices in the immediate areas of our current operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time we may be involved in legal proceedings arising in the ordinary course of business. There is currently no litigation pending that could have, individually or in the aggregate, a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 16, 2005, the Company held a Special Meeting of the Stockholders. All of the proposals were approved, and the voting results were as follows:

(1) Proposal to Approve the issuance of More than 20% of Outstanding Shares of Common Stock in Connection with the March 2005 Laurus Financing : The proposal was approved with 1,884,381 votes for, 116,852 votes against and 23,542 abstentions.

(2) Proposal to Approve the Issuance of More Than 20% of the Company's Outstanding Shares of Common Stock in Any One or Series or Combinations of Private Offerings Sales and Issuances to Investors of the Company's Securities and a Secondary Offering Sale and Issuance to the Public of Common Stock, in an Approximate Amount in the Range of $6,000,000 to $26,000,000 (Exclusive of Any Securities Which May Be Sold Upon Exercise of Overallotment Options: The proposal was approved with 1,888,785 votes for, 112,185 votes against and 23,805 abstentions.

(3) Proposal to Approve an Amendment to the 2002 Stock Option Plan to Increase the Number of Shares of Common Stock Available for Grants and Awards Under the 2002 Stock Option Plan By 1,000,000 Shares, From 1,300,000 to 2,300,000. The proposal was approved with 1,708,083 votes for, 281,587 votes against and 35,105 abstentions.

(4) Proposal to Permit the Company's Board of Directors Or Its Chairman Or Its Designee, In Its Or His Discretion, to Adjourn or Postpone the Meeting. The proposal was approved with 1,887,911 votes for, 80,352 votes against and 56,512

abstentions.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock was traded on the American Stock Exchange until December 30, 2005, under the symbol "FTG". Beginning December 30, 2005 our Common Stock has been listed on the Over-the Counter Bulletin Board (the "OTCBB") under the symbol FTGP. The following sets forth, for the periods indicated, the range of quarterly high and low sales prices for our Common Stock as reported on the American Stock Exchange and the OTCBB:

	2005		2004	
Quarter Ended	High	Low	High	Low
March 31	$2.51	$ .53	$.79	$.50
June 30	2.60	1.00	.69	.31
September 30	4.92	1.01	.50	.26
December 31	3.55	1.12	.76	.36

There were 3,817,132 and 3,322,182 common shares outstanding at December 31, 2005 and 2004, respectively. As of December 31, 2005 there were 529 holders of record of the common stock representing approximately 2,400 beneficial stockholders, based upon the number of proxy materials distributed in connection

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with our December 16, 2005 Special Meeting of Stockholders. We have paid no dividends and do not expect to pay dividends in the foreseeable future as we intend to retain earnings to finance the growth of our operations. Pursuant to our credit facility with Laurus Master Fund Ltd., we are prohibited from declaring or paying any dividends or making any other distribution on any of the shares of our capital stock, without the prior consent of the lender.

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share amounts)	Years ended December 31				
	2005	2004	2003	2002	200
Revenues	$15,203	$12,344	$14,909	$19,456	$33,6
Loss from continuing operations	(3,314)	(1,424)	(709)	(2,530)	(1,7
Loss from continuing operations per common share:					

Basic and diluted	(.95)	(.43)	(.21)	(.77)	(.
Total Assets	5,604	4,050	5,291	5,873	10,3
Convertible debt, net (1)	868	-	-	-	
Long term debt, net of current portion	49	39	-	-	
Stockholders' equity (deficiency)	(497)	1,879	3,291	4,029	6,5
Dividends paid	-	-	-	-	