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FARMSTEAD TELEPHONE GROUP INC
Form DEF 14A
April 02, 2004

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
- [] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [X] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Material Pursuant to Section 240.14a-12

Farmstead Telephone Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

SEC 1913 (02-02) Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

FARMSTEAD LOGO

April 23, 2004

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the "Meeting") of Farmstead Telephone Group, Inc. (the "Company") to be held on Thursday, June 10, 2004, at 10:00 a.m. local time, at the Company's offices located at 22 Prestige Park Circle, East Hartford, Connecticut. Your Board of Directors and management look forward to greeting those stockholders who are able to attend.

The Notice of Annual Meeting of Stockholders and Proxy Statement containing information pertaining to the business to be transacted at the Meeting appear on the following pages.

Whether or not you plan to attend, it is important that your shares be represented and voted at the Meeting. Please complete, sign, date, and mail the enclosed proxy card at your earliest convenience. Most stockholders can also vote their shares over the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on the proxy card sent to you.

On behalf of the Board of Directors and management, I would like to thank you for your interest and participation in the affairs of the Company.

Sincerely,

/s/ GEORGE J. TAYLOR, JR.
Chairman of the Board,
President, and Chief Executive
Officer

FARMSTEAD TELEPHONE GROUP, INC.

NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS

TIME 10:00 a.m. EST
Thursday, June 10, 2004

PLACE Farmstead Telephone Group, Inc.
22 Prestige Park Circle
East Hartford, CT 06108

ITEMS OF BUSINESS (1) To elect five directors, each to serve
a one-year term.

(2) To ratify the appointment, by the Board
of Directors, of independent auditors
to audit the Company's books and
records for the year ending December
31, 2004.

(3) To transact such other business as may
properly come before the Meeting or any
adjournments or postponements thereof.

RECORD DATE Holders of Farmstead common stock at the
close of business on April 16, 2004 are
entitled to vote at the meeting.

PROXY VOTING It is important that your shares be
represented and voted at the meeting. Because
many of our stockholders cannot personally
attend the Meeting, it is necessary that a
large number be represented by proxy.
Therefore, if you do not expect to attend the
meeting, but wish your stock to be voted for
the business to be transacted thereat, please
complete, sign and date the enclosed proxy
card and return it by mailing it in the
accompanying postage-paid envelope. Most
stockholders can also vote their shares over
the Internet or by telephone. If Internet or
telephone voting is available to you, voting
instructions are printed on the proxy card
sent to you. If you attend the meeting and
vote at it, your vote at the meeting will

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replace any earlier vote by telephone,
internet or proxy.

By order of the Board of Directors,

April 23, 2004

/s/ ROBERT G. LAVIGNE
Executive Vice President,
Chief Financial Officer and
Secretary

PROXY STATEMENT
2004 Annual Meeting of Stockholders
June 10, 2004

FARMSTEAD LOGO

INTRODUCTION

Solicitation of Proxies

This Proxy Statement and the accompanying Proxy Card are being furnished in connection with the solicitation by the Board of Directors (the "Board") of Farmstead Telephone Group, Inc., a Delaware corporation (the "Company" or "Farmstead"), of proxies to be voted at the Annual Meeting of Stockholders of the Company (the "Meeting") to be held on Thursday, June 10, 2004 at 10:00 a.m. local time at the Company's offices located at 22 Prestige Park Circle, East Hartford, Connecticut 06108, or any adjournments or postponements thereof, for the purposes set forth in the attached Notice of Annual Meeting of Stockholders. This Proxy Statement and the accompanying Proxy Card are first being mailed to stockholders on or about April 23, 2004. A copy of the Company's Annual Report for the year ended December 31, 2003, is included with this Proxy Statement.

Voting Rights and Required Votes

Only the holders of record of the Company's common stock, par value \$.001 per share ("Common Stock"), as of the close of business on April 16, 2004 (the "Record Date"), are entitled to notice of, and to vote on, all matters properly brought before the Meeting or any adjustments or postponements thereof. As of February 27, 2004, there were 3,311,601 common shares outstanding.

Each stockholder is entitled to one vote for each share of Common Stock held by him or her at the close of business on the Record Date. Pursuant to the Company's Amended and Restated By-laws, to constitute a quorum for the transaction of business at any meeting of stockholders, there must be present, in person or by proxy, the holders of no less than one-third of the voting power of the issued and outstanding shares of voting stock of the Company. Once a share is represented for any purpose at the meeting, it is deemed present for quorum purposes for the remainder of the meeting. A plurality of the votes cast by the shares of stock entitled to vote, in person or by proxy, at the Meeting will elect directors as long as a quorum is present. Except as otherwise required by law, the Company's Restated Certificate of Incorporation or the Company's Amended and Restated By-laws, if a quorum exists, action on each other question to be voted upon will be approved if votes, in person or by proxy, cast by stockholders favoring the action exceed the vote cast by stockholders opposing the

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action. When proxies in the enclosed form are returned properly executed, the shares represented thereby will be voted at the Meeting and, where instructions have been given by the stockholder, will be voted in accordance therewith. If the stockholder does not otherwise specify, the stockholder's shares will be voted FOR each of the nominees for director and FOR the proposal to ratify the appointment of the independent auditors, all as set forth in this Proxy Statement. As to any other business, which may come before the Meeting, the proxy holders will vote in accordance with their best judgment. Votes will be counted manually. A stockholder executing the accompanying proxy has the power to revoke it at any time prior to the exercise thereof by appearing at the Meeting and voting in person or by filing with the Secretary of the Company, (i) a duly executed proxy bearing a later date, or (ii) a written instrument revoking the proxy.

In certain circumstances, a stockholder will be considered to be present at the Meeting for quorum purposes, but will not be deemed to have voted in the election of directors or in connection with other matters presented for approval at a meeting. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Therefore, abstentions and broker "non-votes" have no effect for purposes of the election of directors, since the election of directors requires a plurality vote as described above. However, on all other proposals that require a majority vote as described above, an abstention has

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the effect of a vote against the proposal, and broker non-votes will not be counted at all. A stockholder executing the accompanying proxy has the power to revoke it at any time prior to the exercise thereof by appearing at the Meeting and voting in person or by filing with the Secretary of the Company, a properly executed, later-dated proxy (including an Internet or telephone vote), or a written instrument revoking the proxy. Most stockholders have a choice of voting over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible, and that there may be some risk a stockholder's vote might not be properly recorded or counted because of an unanticipated electronic malfunction.

Costs of Solicitation

The solicitation of proxies in the accompanying form is made by, and on behalf of, the Board of Directors. We have engaged the services of Computershare Trust Co., Inc., the Company's Transfer Agent, and ADP Investor Communication Services, to assist us in the distribution and processing of proxies, for which total fees and expenses of approximately \$7,000 will be paid. There will be no solicitation by officers and employees of the Company. The Transfer Agent will make arrangements with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of proxy materials to the beneficial owners of shares held of record by such persons, and such persons will be reimbursed for reasonable expenses incurred by them in connection therewith.

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PROPOSAL 1 - ELECTION OF DIRECTORS

The Amended and Restated By-laws of the Company provide that the Board of Directors shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors. The Board has fixed the current number of directors at five. Each director presently is elected for a one-year term at each annual meeting of the stockholders. Officers are elected by, and serve at the pleasure of, the Board of Directors.

Five directors are to be elected at the Meeting to hold office until the next Meeting or until their successors have been duly elected and qualified. It is the intention of the persons named in the accompanying Proxy Card to vote FOR the election of the five persons named in the table below as directors of the Company, unless authority to do so is withheld. All of the nominees are currently directors of the Company, and they have consented to being nominated and named herein, and to serve as directors if elected at the Meeting. In the event that any of the nominees for director should become unavailable for election for any presently unforeseen reason, the persons named in the accompanying Proxy Card have the right to use their discretion to vote for a substitute.

The Board of Directors recommends a vote "FOR" the election of the nominees as Director.

For each nominee, each of whom is an incumbent, and for each executive officer and Section 16 officer of the Company other than such nominees, there follows a brief listing of their principal occupation for at least the past five years, other major affiliations, and age as of January 1, 2004.

Nominees:

George J. Taylor, Jr., Chairman of the Board of Directors and Chief Executive Officer of the Company (including its predecessors) since 1984, and President since 1989. President of Lease Solutions, Inc. (formerly Farmstead Leasing, Inc.), a business products and automobile leasing company, from 1981 to 1993. Vice President - Marketing and Sales for National Telephone Company from 1977 to 1981. Mr. Taylor was one of the founders of the National Association of Telecommunication Dealers, has been a member of, or advisor to, its Board of Directors since its inception in 1986, and for two years served as its President and Chairman. Brother of Mr. Hugh M. Taylor, a director of the Company. Age: 61.

Harold L. Hansen, Director of the Company since 1992. An independent management consultant since January 1997. A member of the Audit Committee (Chairman until January 2, 2003) and the Compensation Committee. President of Hansen Associates, a management and financial consulting firm from 1995 to 1997. President of H2O Environmental, Inc., an environmental and geotechnical services company, from 1994 to 1995.

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President of Hansen Associates from 1993 to 1994. Prior to 1983, Mr. Hansen served in various corporate executive capacities including Executive Vice President and Chief Operating Officer of Gestetner Corporation, Vice President and General Manager of the Office Products Division of Royal Business Machines and Vice President and General Manager of the Business Products Group of Saxon Industries. Age: 73.

Joseph J. Kelley, Director of the Company since April 1995. Chairman

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of the Compensation Committee and a member of the Audit Committee. Currently an Executive-in-Residence at the Olin Graduate School of Business at Babson College, Wellesley, Massachusetts. President of East Haven Associates, a telecommunications consulting firm located in Wellesley, Massachusetts, from 1995 to 2001. Group Vice President of NYNEX, in 1994, responsible for the State of Massachusetts operations. From 1985 to 1994 he served in various executive level positions with NYNEX , or associated companies including Vice President - Operations of New England Telephone (1991 - 1993), Vice President - New England Telephone, Network Department (1990 - 1991), Corporate Director of Business Development, NYNEX Marketing (1988 - 1990) and Vice President of New England Telephone - Maine (1985 - 1988). Mr. Kelley has been involved in the telecommunications industry since 1963. Age: 64.

Ronald P. Pettirossi, Director of the Company since January 3, 2003. Chairman of the Audit Committee. President of ER Ltd., a consulting company since 1995. From February 1997 to August 1998, Mr. Pettirossi was the Chief Financial Officer of Discas, Inc. a Waterbury, Connecticut based proprietary plastic and rubber compounds manufacturer. Mr. Pettirossi is a former audit partner of Ernst & Young, LLP, who worked with public and privately held companies for 31 years. Mr. Pettirossi is a member of the Board of Directors of Magellan Petroleum Corporation. Age: 60.

Hugh M. Taylor, Director of the Company since 1993. A member of the Compensation Committee. Managing Director of Newbury, Piret & Company, Inc., an investment banking firm located in Boston, MA since 1994. CEO, President and a director of the Berlin City Bank, Berlin, New Hampshire, from 1993 to 1994. Executive Vice President of Fleet Bank of Massachusetts from 1992 to 1993. Executive Vice President and Chief Operating Officer of Fleet Bank of Boston from 1990 to 1992. From 1973 to 1990 he was employed by the New England Merchants Bank, later the Bank of New England, where he held various executive management positions within the Commercial Banking Division, and the bank's venture capital subsidiary. Brother of Mr. George J. Taylor, Jr. Age: 59.

Other Executive Officers:

Michael R. Johnson, Executive Vice President since August 2001. Sales Vice President, Avaya Inc. from 2000 to 2001; Vice President - Global Accounts, Lucent Technologies, from 1996 to 2000. From 1979 through 1996, Mr. Johnson held various product management and sales management positions with AT&T Corporation. While employed by Avaya, Lucent and AT&T, Mr. Johnson was assigned sales management responsibilities covering many of their largest commercial customers located in New York. Age: 57.

Robert G. LaVigne, Executive Vice President since July 1997. Chief Financial Officer, Corporate Secretary and Treasurer since 1988. Vice President - Finance & Administration from 1988 until July 1997. Director of the Company from 1988 to 2001. Contoller of Economy Electric Supply, Inc., a distributor of electrical supplies and fixtures, from 1985 to 1988. Corporate Contoller of Hi-G, Inc., a manufacturer of electronic and electromechanical components, from 1982 to 1985. Certified Public Accountant. Age: 52.

Other Section 16 Officers:

Stephen W. Chrystone, Vice President, Sales since January 2003. Sales Account Executive for the New York/Connecticut region from January 2002 to 2003. From 1996 to 2001, Mr. Chrystone was District Sales Manager for Avaya Inc./Lucent Technologies with responsibility for the Connecticut and Western Massachusetts marketplaces. Age: 49

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Frederick E. Robertson, Jr., Vice President, Operations since January 2003. Director of Provisioning from March 2001 to January 2003. Senior Director of Merchandising for Staples Communications, Inc. from 1999 to 2001. Director of Corporate Purchasing and Logistics for Claricom, Inc. from 1998 to 1999. Corporate Manager, Cost Control and Purchasing for Executone Information Systems, Inc. from 1996 to 1998. Age: 45.

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Meetings and Committees of the Board of Directors

During 2003, the Board held five meetings. In addition, certain actions were approved by unanimous written consent resolutions of the directors. No director attended less than 75% of all Board and applicable committee meetings held. During 2003, the Board had two ongoing committees: an Audit Committee and a Compensation Committee.

The Audit Committee, consisting of Messrs. Pettirossi (Chairman), Hansen and Kelley, consults with the independent auditors and management with respect to the adequacy of internal controls and the Company's audited financial statements. In the Board's judgment, each member of the Audit Committee is financially literate. The Board has reviewed the qualifications and experience of each of the Audit Committee members and determined that Mr. Pettirossi qualifies as "audit committee financial expert" as that term has been defined by the SEC. They also review the Company's internal quarterly financial statements with management and, when deemed necessary, with the independent auditors as well. The Audit Committee also recommends to the Board of Directors the appointment of independent auditors for the following year. The Audit Committee held five meetings during 2003.

The Compensation Committee, consisting of Messrs. Kelley (Chairman), Hansen and H. Taylor, determines the compensation and benefits of the Chief Executive Officer and reviews and approves, or modifies if deemed appropriate, the recommendations of the Chief Executive Officer with respect to the compensation and benefits of the other executive officers. The Compensation Committee also approves the issuance of grants pursuant to the Company's stock option plans. The Compensation Committee held one meeting during 2003.

PROPOSAL 2 - RATIFY THE APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected Carlin, Charron & Rosen, LLP ("CC&R") as our independent auditors for the year ending December 31, 2004. CC&R, and its predecessor company, DiSanto Bertoline & Company, P.C., have been our independent auditors since October 2001. We are submitting the selection of CC&R for stockholder ratification at the Annual Meeting. In the event the stockholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent auditing firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of Farmstead and its stockholders.

A representative of CC&R is expected to be present at the Meeting, will be afforded the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions from stockholders.

The Board of Directors recommends a vote FOR ratification of the

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appointment of Carlin, Charron & Rosen, LLP as independent auditors of the Company for the year ending December 31, 2004.

Principal Accountant Fees and Services

The Audit Committee or a designated member thereof, pre-approves each audit and non-audit service rendered by CC&R to Farmstead. The following table shows information about fees billed to Farmstead by CC&R (including its predecessor, DiSanto Bertoline & Company, P.C. in 2002) for professional services rendered for the years ended December 31, 2003 and 2002:

Fee Category	2003	2002
-----	----	----
Audit Fees	\$54,200	\$45,700
Audit-Related Fees	6,500	7,488
Tax Fees	7,500	12,280
All Other Fees	1,850	3,885
	-----	-----
Total Fees	\$70,050	\$69,353
	=====	=====

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Audit Fees. Consists of fees billed for professional services rendered for the audit of Farmstead's consolidated financial statements and reviews of interim consolidated financial statements included in quarterly reports filed with the Securities and Exchange Commission.

Audit-Related Fees. Consists of fees billed for professional services rendered for the audit of Farmstead's 401(K) Plan.

Tax Fees. Consists of fees billed for professional services rendered for the preparation of federal and state tax returns.

All Other Fees. For 2003, consists of fees for services rendered in meeting with the Audit Committee and attendance at the Annual Meeting. There were no management consulting services provided in 2003. For 2002, consists of fees for services rendered in meeting with the Audit Committee, attendance at the Annual Meeting and consultations regarding accounting and other business matters.

CORPORATE GOVERNANCE

At Farmstead, we are committed to operating in an ethical, legal and environmentally sensitive and socially responsible manner, while creating long-term value for our shareholders. Farmstead maintains a corporate governance page on its website which includes key information about its corporate governance initiatives, including its Code of Ethical Conduct (a copy of which is included herein in Appendix A) and charters for the committees of the Board of Directors. The corporate governance page can be found at www.farmstead.com by clicking on "About Farmstead", then "Corporate Governance". Stockholders may obtain copies of these documents, free of charge, by sending a written request to our principal executive office at 22 Prestige Park Circle, East Hartford, CT 06108, Attention: Corporate Secretary.

Farmstead also has a "hotline" available to all employees, and the Audit Committee has established procedures for the confidential and anonymous

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submission of employee complaints on accounting, internal controls or auditing matters.

Independence of Directors

Our policy provides that the Board must be composed of a majority of independent directors. No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with Farmstead either directly or as a partner, stockholder or officer of an organization that has a relationship with Farmstead. Our Board of Directors has determined that all non-management directors are independent in accordance with the American Stock Exchange listing standards. The Board has made this determination based on the following objective standards, in addition to any other relevant facts and circumstances:

- * A director who is an employee, or whose immediate family member is an executive officer, of Farmstead is not independent until three years after the end of such employment relationship.
- * A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from Farmstead, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.
- * A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of Farmstead is not independent until three years after the end of either the affiliation or the auditing relationship.
- * A director who is employed, or whose immediate family member is employed, as an executive officer of

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another company where any of Farmstead's present executives serves on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

- * A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, Farmstead for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues is not independent until three years after falling below such threshold.

Executive Sessions

Non-management directors meet at least once per year in executive session without management. "Non-management" directors are all those who are not company officers. Executive sessions are led by a "Presiding Director." An executive session may be held in conjunction with a regularly

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scheduled Board meeting and other sessions may be called by the Presiding Director in his or her own discretion or at the request of the Board. Mr. Pettirossi has been designated as the Presiding Director.

Nomination of Directors

It is the policy of the Board of Directors to consider candidates for director recommended by stockholders. In order to recommend a candidate, stockholders must submit the individual's name and qualifications in writing to the Board (in care of the Secretary at Farmstead's principal executive office at 22 Prestige Park Circle, East Hartford, CT 06108) and otherwise in accordance with all of the procedures outlined under "Nominations and Stockholders' Proposals for Year 2005 Annual Meeting of Stockholders" for a director nomination.

In identifying and evaluating nominees for Director, the Board of Directors takes into account the applicable requirements for directors under the Securities Exchange Act of 1934, as amended, and the listing standards of the American Stock Exchange. In addition, the Board of Directors may take into consideration such factors and criteria as it deems appropriate, including the nominee's character, judgment, business experience and acumen. In addition to nominees recommended by stockholders, the Board of Directors also considers candidates recommended by management or other members of the Board. The Board evaluates candidates recommended for Director by stockholders in the same way that it evaluates any other nominee.

Communications with the Board of Directors

The Board has established a process for stockholders and other interested parties to communicate with the Board or an individual director, including the Presiding Director or the non-management directors as a group. A stockholder may contact the Board of Directors or an individual director by writing to their attention at Farmstead's principal executive offices at 22 Prestige Park Circle, East Hartford, CT 06108. Communications received in writing are distributed to the Board or to individual directors as appropriate in accordance with procedures approved by Farmstead's independent directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock, \$.001 par value, as of February 27, 2004 by (i) each person known by the Company to own beneficially more than five percent of the Company's outstanding shares of Common Stock, (ii) all directors and nominees for director of the Company, (iii) each Named Executive Officer and Other Section 16 Officers (as defined below in "Compensation of Officers, and Directors") and (iv) all directors, nominees for director, named executive officers and other section 16 officers of the Company as a group. In addition to being a beneficial owner of more than five percent of the Company's outstanding shares of Common Stock, Mr. George J. Taylor, Jr. is a director of the Company.

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Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (2)	Percentage of Outstanding Common Stock
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Five Percent Stockholders:		
George J. Taylor, Jr.	1,132,884 (3)	27.0%
Robert G. LaVigne	272,500 (4)	7.6%
Other Directors (and Nominees):		
Harold L. Hansen	44,229 (5)	1.3%
Hugh M. Taylor	50,703 (6)	1.5%
Joseph J. Kelley	33,229 (5)	1.0%
Ronald P. Pettirossi	7,500 (5)	*
Other Named Executive Officers:		
Michael R. Johnson	51,500 (7)	1.5%
Other Section 16 Officers:		
Frederick E. Robertson, Jr.	12,367 (8)	*
Directors, Nominees and Named Executive Officers and Section 16 Officers as a Group (8 persons)		
	1,604,912 (9)	34.5%