BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

Application of Computer Business Sciences, Inc. for a Certificate of Public Convenience and Necessity to Offer Facilities Based Local Exchange and Intrastate, Interexchange Telecommunications Services	)	Docket No. 99-00440

APPLICATION OF COMPUTER BUSINESS SCIENCES, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Pursuant to the provisions of T.C.A. Sections 65-4-201(b) (c) and (d),COMPUTER BUSINESS SCIENCES, INC. ("CBS" or "Company"), hereby applies to the Tennessee Regulatory Authority ("Authority) for a Certificate of Public Convenience and Necessity ("Application") to Become a Competing Telecommunications Service Provider as defined by T.C.A. Sect. 65-5-101(e). CBS requests authority to provide facilities-based basic local exchange service and interexchange service throughout the State of Tennessee in the exchange areas of Bell South. This Application is submitted by CBS in order to be classified as a Competitive Local Exchange Carrier ("CLEC") and as a certified intrastate, interexchange carrier..

CBS's Application seeking entry into the Tennessee local exchange market is in the public interest because it will provide Tennessee consumers with an enhanced range of communications services, will increase customer choice, will encourage carriers to provide more efficient service at lower prices, will provide users with greater reliability, and will create competitive pressure on carriers to provide more responsive customer service. CBS respectfully submits its entry will bolster competition for the provision of local telecommunications and communications services, which is essential to the State's continued economic health and well-being.

Approval of this Application will further the purposes of the Federal Telecommunications Act of 1996 ("Federal Act"). Therefore, Applicant respectfully requests that the Authority grant it a license to provide the local exchange telecommunications services and interexchange services described herein. In support thereof, CBS provides the following information:

I. NAME AND ADDRESS OF APPLICANT

Applicant's address is:

COMPUTER BUSINESS SCIENCES, INC.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
v. 718-520-6500
f. 718-520-0783

Correspondence concerning this Application should be directed to:

Deborah Arnott — Regulatory Administrator
Computer Business Sciences, Inc.
80-02 Kew Gardens Rd., Suite 5000
Kew Gardens, NY 11415
v. 718-520-6500
f. 718-520-0783

and to: Eric Fishman, Esq. — The Company's Counsel
Holland & Knight, LLP
2100 Pennsylvania Avenue, NW
Suite 400
Washington, DC 20037-3202
v. (202) 828-1849
f. (202) 828-1868

Doron Cohen, President/CEO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 47 Parker Blvd., Monsey, NY 10952
Kimberly Peacock, EVP/CTO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 118-80 Metropolitan, 4J, Kew Gardens, NY 11415
Bruce A. Hall, VP-COO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 12 Meadowbrook Dr, Brookfield, CT 06804
Richard L. Feinstein, CFO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 44 Hedgerow Lane, Jericho, NJ 11753

Directors:

Bruce Bendell, Chairman	80-02 Kew Gardens Road, Kew Gardens, NY 11415
Doron Cohen	80-02 Kew Gardens Road, Kew Gardens, NY 11415
Yossi Koren	7 W. 45th St., New York, NY 10036

2. Financial Qualifications

CBS is financially qualified to offer the telecommunications services requested in its service territory.

CBS combines its financials with its parent company, Fidelity Holdings, Inc., a public company (NASDAQ SmallCap: FDHG) when filing with the SEC. Fidelity's provides its financials in support of the CBS project and attaches them as **Exhibit JJG-2**. Fidelity Holdings, Inc. and CBS just recently closed an agreement on an $11.3 million debt facility in a definitive agreement with Zanett Securities Corp., a portion of which is to be dedicated to this CBS project.

With the resources of both Fidelity and CBS, CBS possesses the sound financial base necessary to provide basic local exchange and interexchange telecommunications services. In particular, CBS, with Fidelity, has access to the capital necessary to fulfill any obligations it may undertake with respect to operation and maintenance of the requested service.

Attached as **Exhibit JJG-3** is a copy of our organizational chart, our projected financial statements, income statement, balance sheet, and statement of cash flows for the next three years as well as a breakdown of start-up capital needed. This breakdown of start-up capital is for 30 states, so Tennessee operations would cost 1/30th of those amounts. The financial statements do no reflect any amounts related to reciprocal compensation for terminating ISP traffic.

3. Managerial Qualifications

CBS's local services operations will be managed by highly trained staff that will draw upon the telecommunications experience and expertise of its officers and directors. Attached as Exhibit **JJG-4** are descriptions of the telecommunications and managerial experience of Applicant's key personnel, who have extensive management, financial, and technical experience.

4. Technical Qualifications

Applicant is technically qualified to provide the proposed local exchange and interexchange services in the State of Tennessee. CBS is also authorized to provide resold local exchange services in New York, and is authorized by the Federal Communications Commission to provide international telecommunications services. CBS has a full telecom engineering staff.

C. Description of Applicant's technical, financial and managerial resources and abilities to provide basic local exchange service to every person within the geographic area of the license.

Applicant has demonstrated, in Section 2 above, that it possesses the requisite technical, financial and managerial resources and abilities to provide basic local exchange service and interexchange service and will be able to provide basic local exchange service and interexchange service to every person within the geographic area of the license, using a combination of co-location facilities with the RBOC and CBS's own facilities.

Attached as Exhibit **JJG-5** is an illustrative tariff setting forth descriptions, terms, and conditions for CBS's proposed services.

D. Description of Proposed Construction

Computer Business Sciences, Inc. is building an integrated network that delivers voice, video and data to its customers. We utilize ATM throughout the core of the network and XDSL on the edge. We will lease the local loop from Bell South and be co-located with central offices of the Tennessee RBOC in Memphis and Nashville, and deliver to our customers xDSL CPE equipment. Tennessee customers will not be required to purchase the CPE equipment should the customer decide to go back to the ILEC for whatever reason. Our xDSL equipment utilizes 2B1Q signaling which is currently used with ISDN and conventional T-1s. Once the customer

transmits from its home or office and the transmission arrives at the central office, the customer will be connected to our ATM network. Voice transmissions go directly to our switch and to tandems which are connected with the ILECs. Calls outside the region will be packetized and transmitted over our ATM network; at the termination point in the other region, they will be depacketized and sent out over the tandems that are connected with the ILEC in that region. We expect full deployment within two to three months from the date of this Application. For more information on how this network will be deployed, see **EXHIBIT JJG-6.**

CBS will provide all customers with access to 911/E911 emergency services and operator service in accordance with applicable law and will cooperate with existing RBOCs, CLECs and ILECs to arrange for the necessary interconnections to enable the completion of these Calls. CBS will interconnect to the Bell South 911/E911 selective router or 911 Tandem Offices, as appropriate, that serve the areas in which CBS provides exchange services, for the provision of 911/E911 and for access to all sub-tending Public Safety Answering Points ("PSAP"). Bell South will provide CBS with the appropriate codes and specifications of the tandem serving area. Therefore, CBS will comply with all applicable rules and regulations pertaining to the provision of 911/E911 services in the State of Tennessee, supporting the statewide relay system and Lifeline and Link-up services to qualifying citizens of the state. In addition, CBS will provide white page directory listings and directory assistance, consumer access and support for the Tennessee Relay Center in the same manner as incumbent local exchange telephone companies, free blocking service for 900, 976 type services in accordance with Authority policy, educational discounts in existence as of June 6, 1995. CBS will provide support for universal service in a manner determined by the Authority, interconnection with other certificated carriers or Authority authorized carriers on a non-discriminatory basis under reasonable terms and conditions and will comply with Authority basic service standards as defined in any applicable rules and decisions of the Authority. CBS will also provide equal access to authorized inter-and intraLATA long distance providers, unless otherwise exempted by the Authority.

E. Discussion of the impact on the public interest

Both the Tennessee legislature and the United States Congress have determined that it is in the public interest to promote competition in the provision of telecommunications services.

As discussed above, the Federal Act was designed to promote increased competition in the telecommunications market. Moreover, the Authority has already determined that the grant of applications for competing licenses to provide basic local exchange services is in the public interest. The recent experience with the introduction of competition to other telecommunications markets, such as long distance, competitive access and customer premises equipment, has led to public interest benefits in those markets.

Prior to the enactment of the Federal Act, the Federal Communications Commission had found ample evidence that competitive provision of interstate services (both interexchange and access) furthers the public interest.

SUMMARY

The Authority has determined that the grant of applications for competing licenses to provide basic local exchange and interexchange services in the public interest. Applicant is familiar with and will adhere to the Authority's rules, policies and orders regarding the provision of telecommunications service.

CBS's proposed services will provide multiple public benefits by increasing the efficiency of incumbent LECs, by providing users of telecommunications services with greater reliability, and by increasing the competitive choices available to users in the state. CBS's deployment of DSL service advances these public benefits. By utilizing existing copper loops, DSL service enables network service providers to deliver high-speed, broadband data service to vast numbers of customers at low, affordable rates. Today more than 100 million homes in the United States are served by copper access lines. While it is widely accepted that the network of the future will run over fiber optic cable, the estimated price tag for such transition is prohibitive -- $2,000 per subscriber in today's dollars – and conversion time frames range from 15 to 30 years. If current projections are accurate, fiber will replace only 20% of the world's current copper by the year 2000, when the market for DSL is expected to top $2.5 billion according to Dataquest (August 1996). At that rate, DSL could be a multi-billion dollar interim solution for at least two decades. Through its provisioning of DSL service, CBS will be able to provide customers with the bandwidth and data rates they need for all foreseeable applications, at prices they can afford.

Enhanced competition in telecommunications services likely will further stimulate economic development in Tennessee. In addition, increased competition will create incentives for lower prices, more innovative services, and more responsive customer service.

Furthermore, the grant of a certificate will not adversely affect the incumbent LEC's service. As has been the case with other competitive initiatives in Tennessee, a grant of the instant authority will have minimal impact on the incumbent. In fact, incumbent providers have benefited from market incentives to improve the efficiency of their operations, and from increased usage of their services due to expansion of the total market spurred by competition and lower prices.

Local exchange services competition also will stimulate the demand for the services supplied by all local service carriers, including those of the incumbent LEC. The incumbent provider will have market incentives to improve the efficiency of its operations, and it will benefit from the increased use of its services, due to the expansion of the total market and by their competitively driven prices.

Further, as demonstrated above, the grant of this authority will provide significant benefits to consumers in terms of carrier choice, price, increased reliability, responsiveness and the introduction of new services. Additionally, as competition has driven telecommunications prices downward, businesses have seen concomitant reductions in their operating costs and increases in their sales, which have contributed toward the viability of the economy and employment levels.

F. Small and Minority Owned Business Participation Plan

Per T.C.A. Section 65-5-212, CBS also herein submits a copy of its small and minority owned telecommunications business participation plan. The plan contains the Company's plan for purchasing goods and services from small and minority telecommunications business, and information on programs, if any, to provide technical assistance to such businesses. Attached as **Exhibit JJG-7** is CBS's Participation Plan.

G. Y2K Issue

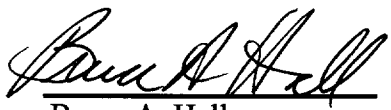
The Company recognizes the need to ensure its operations will not be adversely impacted by the inability of the Company's systems to process data having dates which could be affected by the Year 2000 issue. The Company is currently addressing the risk with respect to the

availability and integrity of its financial systems and operating systems. While the Company believes its planning efforts are adequate to address the Year 2000 concerns, there can be no assurance that the systems of other companies, including suppliers, customers and others on which the Company's operations rely are, or will be made, compliant on a timely basis and will not have a material effect on the Company. However, all such significant systems are being evaluated for compliance. The cost of the Company's Year 2000 compliance effort is not expected to be material to the Company's results of operations or financial position. All of CBS's routers and switches are new, NEBs compliant, and all have been pre-designed with Y2K issues in mind.

CONCLUSION

COMPUTER BUSINESS SCIENCES, INC. respectfully requests that the Authority enter an Order granting it a license to operate as a local exchange company to provide facilities-based basic local exchange services and interexchange services throughout the Bell South - Tennessee exchange areas. For the reasons stated above, CBS's provision of these services would promote the public interest by providing high-quality service at competitive prices, and by creating greater economic incentives for the development and improvement for all competing providers. The Authority should issue a license authorizing CBS to provide basic local exchange services and interexchange services as described in this Application.

Respectfully submitted,



Bruce A. Hall
Chief Operations Officer
Computer Business Sciences, Inc.
80-02 Kew Gardens Rd., Suite 5000
Kew Gardens, NY 11415

EXHIBIT JJG-1

CBS' ARTICLES OF INCORPORATION

and

CERTIFICATE TO TRANSACT
BUSINESS IN
THE STATE OF TENNESSEE

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "COMPUTER BUSINESS SCIENCES, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-FIRST DAY OF JANUARY, A.D. 1999.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE NOT BEEN ASSESSED TO DATE.

Edward J. Freel, Secretary of State

2275071 8300

991026321

2

AUTHENTICATION: 9534100

DATE: 01-21-99

CERTIFICATE OF INCORPORATION
OF
COMPUTER BUSINESS SCIENCES, INC.

ARTICLE I

The name of the corporation is Computer Business Sciences, Inc.

ARTICLE II

The address of the registered office of the corporation in the State of Delaware is 1013 Center Rd., Wilmington, DE 19805. The name of the registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

The total number of shares of all classes of stock which the corporation has authority to issue is Thirty One Million (31,000,000) shares, consisting of two classes: Thirty Million (30,000,000) shares of Common Stock, $0.001 par value per share, and One Million (1,000,000) shares of Preferred Stock, $0.001 par value per share.

The Board of Directors is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of Preferred Stock in one or more series, and, by filing a certificate of designation pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding). The number of authorized shares of Preferred Stock may also be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the corporation entitled to vote, unless a vote of any other holders is required pursuant to a certificate or certificates establishing a series of Preferred Stock.

Except as otherwise expressly provided in any certificate of designation designating any series of Preferred Stock pursuant to the foregoing provisions of this Article IV, any new series of Preferred Stock may be designated, fixed and determined as provided herein by the Board of Directors without approval of the holders of Common Stock or the holders of Preferred Stock, or any series thereof, and any such new series may have powers, preferences and rights, including, without limitation, voting rights, dividend rights, liquidation rights, redemption rights and conversion rights, senior to, junior to or pari passu with the rights of the Common Stock, the Preferred Stock, or any future class or series of Preferred Stock or Common Stock.

ARTICLE V

The Board of Directors of the corporation shall have the power to adopt, amend or repeal Bylaws of the corporation.

ARTICLE VI

A. Election of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

B. Special meetings of stockholders of the corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption), the Chairman of the Board or the Chief Executive Officer.

ARTICLE VII

Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation or other cause may be filled (a) by the stockholders at any meeting, (b) by a majority of the directors, although less than a quorum, or (c) by a sole remaining director, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VIII

A. To the fullest extent permitted by law, no director of the corporation shall be personally liable for monetary damages for breach of fiduciary duty as a director. Without limiting the effect of the preceding sentence, if the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

B. To the extent permitted by applicable law, this corporation is also authorized to provide indemnification of (and advancement of expenses to) agents (and any other persons to which Delaware law permits this corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the corporation, its stockholders, and others.

C. Neither any amendment nor repeal of any of the foregoing provisions of this Article VIII, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article VIII, shall eliminate, reduce or otherwise adversely affect any limitation on the personal liability of a director of the corporation existing at the time of such amendment, repeal or adoption of such an inconsistent provision.

ARTICLE IX

The name and mailing address of the incorporator is Richard L. Feinstein, 80-20 Kew Gardens Road, Kew Gardens, New York 11415.

The undersigned incorporator hereby acknowledges that the foregoing certificate is his act and deed and that the facts stated herein are true.

Date: January 6, 1999

Richard L. Feinstein

Secretary of State
Corporations Section
James K. Polk Building, Suite 1800
Nashville, Tennessee 37243-0306

DATE: 05/10/99
REQUEST NUMBER: 3681-1627
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 05/10/99 1102
EFFECTIVE DATE/TIME: 05/10/99 1102
CONTROL NUMBER: 0370581

TO:
COMPUTER BUSINESS SCIENCES, INC
80-02 KEW GARDENS RD

KEW GARDENS, NY 11415

RE:
COMPUTER BUSINESS SCIENCES, INC.
APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED CERTIFICATE OF AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A CORPORATION ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DATE OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE CORPORATION'S FISCAL YEAR. PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION OF THE CORPORATION'S FISCAL YEAR. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE CORPORATION AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE CORPORATION TO ADMINISTRATIVE REVOCATION OF ITS CERTIFICATE OF AUTHORITY.

N CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY - FOR PROFIT

ON DATE: 05/10/99

FROM:
ACCELERATED INFORMATION & DOCUMENT FILIN
90 STATE STREET
SUITE 836
ALBANY, NY 12207-0000

	FEES	
RECEIVED:	$600.00	$0.00
TOTAL PAYMENT RECEIVED:		$600.00

RECEIPT NUMBER: 00002495764
ACCOUNT NUMBER: 00312175

Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE

SS-4458

APPLICATION FOR CERTIFICATE OF AUTHORITY FOR

~~ORIGINAL FILED~~

COMPUTER BUSINESS SCIENCES, INC.

To the Secretary of State of the State of Tennessee:

Pursuant to the provisions of Section 48-25-103 of the Tennessee Business Corporation Act, the undersigned corporation hereby applies for a certificate of authority to transact business in the State of Tennessee, and for that purpose sets forth:

1. The name of the corporation is Computer Business Sciences, Inc.

If different, the name under which the certificate of authority is to be obtained is _____.

[NOTE: The Secretary of State of the State of Tennessee may not issue a certificate of authority to a foreign corporation for profit if its name does not comply with the requirements of Section 48-14-101 of the Tennessee Business Corporation Act. If obtaining a certificate of authority under an assumed corporate name, an application must be filed pursuant to Section 48-14-101(d).]

2. The state or country under whose law it is incorporated is Delaware.

3. The date of its incorporation is January 21, 1999 (must be month, day, and year), and the period of duration, if other than perpetual, is perpetual.

4. The complete street address (including zip code) of its principal office is 80-02 Kew Gardens Rd., Kew Gardens, NY 11415.

Street / City / State/Country / Zip Code

5. The complete street address (including the county and the zip code) of its registered office in this state is 717e Forrest Oaks Dr., Nashville, TN Davidson.

Street / City/State / County / Zip Code

The name of its registered agent at that office is

Capital Filing Service, Inc.

6. The names and complete business addresses (including zip code) of its current officers are: (Attach separate sheet if necessary.)

see attached

7. The names and complete business addresses (including zip code) of its current board of directors are: (Attach separate sheet if necessary.)

see attached

FILED

8. The corporation is a corporation for profit.

9. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date/time is

_____, 19____(date), _____(time).

[NOTE: A delayed effective date shall not be later than the 90th day after the date this document is filed by the Secretary of State.]

[NOTE: This application must be accompanied by a certificate of existence (or a document of similar import) duly authenticated by the Secretary of State or other official having custody of corporate records in the state or country under whose law it is incorporated. The certificate shall not bear a date of more than one (1) month prior to the date the application is filed in this state.]

4/22/99
Signature Date

VP-Chief Operating Officer
Signer's Capacity

Computer Business Sciences, Inc.
Name of Corporation

Bruce A. Hall
Signature

Bruce A. Hall
Name (typed or printed)

SS-4431 (Rev. 7/93)

RDA 1678

Computer Business Sciences, Inc.
Officers & Directors List

Officers:	Business Address
Doron Cohen, President/CEO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 47 Parker Blvd., Monsey, NY 10952
Kimberly Peacock, EVP/CTO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 118-80 Metropolitan, 4J, Kew Gardens, NY 11415
Bruce A. Hall, VP-COO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 12 Meadowbrook Dr, Brookfield, CT 06804
Richard L. Feinstein, CFO	80-02 Kew Gardens Road, Kew Gardens, NY 11415 Home: 44 Hedgerow Lane, Jericho, NY 11753

Directors:	Business Address:
Bruce Bendell, Chairman	80-02 Kew Gardens Road, Kew Gardens, NY 11415
Doron Cohen	80-02 Kew Gardens Road, Kew Gardens, NY 11415
Yossi Koren	7 W. 45th St., New York, NY 10036

FINANCIALS

(See also attached Financial Statements)

Computer Business Sciences, Inc. is a wholly-owned subsidiary of Fidelity Holdings, Inc., a diversified and public holding company (FDHG: NASDAQ) which derives revenues from its operating subsidiaries. As shown in the Company's recently filed SEC 10Q filing, attached hereto, Fidelity's consolidated revenues for the nine month period ended September 30, 1998 increased approximately $60.8 million, or 1,700% over the comparable prior period to $64,314,214. At the end of this period, cash and cash equivalents for the Company amounted to $1,086,819. As shown in the Company's most recently filed SEC Form 8K, attached hereto, in January 1999 Fidelity Holdings and CBS finalized with Zanett Securities Corp. an $11.3 million debt facility, a portion of which is dedicated to the CBS project. CBS's financials are combined with those of Fidelity Holdings when filing with the SEC.

CBS believes that it is in the position to offer customized service bundles by capturing the customers' network entry point (copper loop) and delivering local broadband with quality of service guarantees. Further, CBS can do this at a significant savings from current offerings where services are individually purchased from cable companies and telephone companies. CBS, by financing on a customer basis, can build its asset base while not incurring debt. This will allow the Company greater flexibility to adapt to market pricing and expand its network. As rolling out xDSL service is extremely capital intensive (Approx: $1,200 per customer) CBS intends to package and sell xDSL service in 1,000 customer multiples to a mezzanine funding source such as GE Capital. CBS will pay for the initial deployment of 1,000 units of xDSL service equipment and once subscribed to would seek funding for those units to replenish the cash shortage due to the purchase. CBS will then either seek additional private placement monies or an IPO to repay the mezzanine funding.

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	FIDELITY HOLDINGS INC
CENTRAL INDEX KEY:	0001009779
STANDARD INDUSTRIAL CLASSIFICATION:	RADIO TELEPHONE COMMUNICATIONS [4812]
IRS NUMBER:	113292094
STATE OF INCORPORATION:	NV
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10QSB
SEC ACT:	
SEC FILE NUMBER:	000-29182
FILM NUMBER:	99624578

BUSINESS ADDRESS:

STREET 1:	80-02 KEW GARDENS RD SUITE 5000
CITY:	KEW GARDENS
STATE:	NY
ZIP:	11415
BUSINESS PHONE:	7185206500

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

(Mark One)

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1999 or

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-29182

FIDELITY HOLDINGS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	11-3292094
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

80-02 Kew Gardens Road, Suite 5000
Kew Gardens, New York 11415
(Address of principal executive offices)

(718) 520-6500
Issuer's telephone number

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

Yes |X| No |_|

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. Yes |X| No |_|
<PAGE>

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The number of shares of the registrant's common stock outstanding as of May 12, 1999 was 8,522,121.

<PAGE>

Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

FIDELITY HOLDINGS, INC AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS, March 31, 1999 (UNAUDITED)
<PAGE>

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

<TABLE>
<CAPTION>

	MARCH 31, 1999 Unaudited	DECEMBER 31, 1998 Audited
<S>	<C>	<C>
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 2,693,185	$ 820,832
Net investment in direct financing leases, current	421,488	498,418
Accounts receivable	10,852,629	4,836,699
Inventories	22,294,477	18,999,822
Net assets held for sale	6,369,927	7,074,164
Other current assets	2,373,524	444,797
Total current assets	45,005,230	32,674,732
Net investment in direct financing leases, net of current portion	724,427	785,023
Property and equipment, net	4,887,079	4,782,794
Excess of costs over net assets acquired	10,204,475	10,306,950
Notes receivable - officer	949,819	799,819
Other assets	229,944	77,417
Total assets	$ 62,000,974	$ 49,426,735
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current Liabilities:		
Notes payable - floor plan	$ 22,369,559	$ 17,791,253
Notes payable - bank	--	450,000
Convertible debentures payable	2,750,000	600,000
Accounts payable	6,160,147	2,299,306
Accrued expenses	2,264,181	2,007,836
Current maturities of long-term debt	841,664	869,813
Customer deposits	1,016,212	697,087
Total current liabilities	35,401,763	24,715,295
Long-term debt, less current maturities	7,833,654	7,953,278
Due to employees	249,851	249,851
Other	38,160	54,795
Total liabilities	43,523,428	32,973,219

Commitments		
Stockholders' equity		
Preferred stock, $.01 par value; 2,000,000 shares authorized, 1,150,000 shares issued and outstanding	11,500	11,500
Common stock, $.01 par value 50,000,000 shares authorized, 8,643,898 and 8,036,514 shares issued and outstanding in 1999 and 1998	86,439	80,365
Additional paid in capital	16,766,543	14,799,800
Cumulative translation adjustment	(3,856)	(4,977)
Retained earnings	1,682,516	1,566,828
Treasury stock, at cost; 15,618 shares and 0 shares in 1999 and 1998, respectively	(65,596)	--
Total stockholders' equity	18,477,546	16,453,516
Total liabilities and stockholders' equity	$ 62,000,974	$ 49,426,735

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended March 31, 1999	1998
<S>	<C>	<C>
Revenues:		
Sales	$ 45,842,659	$ 165,152
Cost of sales	38,792,945	--
Gross profit	7,049,714	165,152
Operating expenses	5,571,251	247,480
Interest expense	444,283	26,223
Operating income (loss) before income tax expense (credit)	1,034,180	(108,551)
Income tax expense (credit)	190,000	(21,000)
Income (loss) from continuing operations	844,180	(87,551)
Income (loss) from discontinued operations	(728,492)	18,979
Net income (loss)	$ 115,688	$ (68,572)
Per common share:		
Net income (loss) from continuing operations:		
Basic	$ 0.10	$ (0.01)
Diluted	0.08	(0.01)
Net income (loss) from discontinued operations:		
Basic	$ (0.09)	$ --
Diluted	(0.07)	--
Net income:		
Basic	$ 0.01	$ (0.01)
Diluted	0.01	(0.01)
Average number of shares used in computation:		
Basic	8,494,642	6,895,700
Diluted	11,469,404	7,395,700

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FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

<TABLE>
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	Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings (Deficit)	Currency Translation Adjustment
	Shares	Amount	Shares	Amount			
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Balance January 1, 1998	250,000	$ 2,500	6,895,700	$ 68,957	$ 5,414,293	$ 1,038,688	$ 297
Issuance of preferred Stock for acquisition of Major Automotive Group	900,000	9,000	--	--	5,991,000	--	--
Issuance of common stock for services and equipment	--	--	1,140,814	11,408	3,394,507	--	--
Net income	--	--	--	--	--	528,140	--
Translation adjustment	--	--	--	--	--	--	(5,274)
Balance December 31, 1998	1,150,000	11,500	8,036,514	80,365	14,799,800	1,566,828	(4,977)
Issuance of common stock for services and deposits	--	--	607,384	6,074	1,966,743	--	--
Net income	--	--	--	--	--	115,688	--
Translation adjustment	--	--	--	--	--	--	1,121
Repurchase of common stock	--	--	--	--	--	--	--
	1,150,000	$ 11,500	8,643,898	$ 86,439	$ 16,766,543	$ 1,682,516	$ (3,856)

</TABLE>

	Treasury Stock at cost		Total Stockholders' Equity
	Shares	Amount	
Balance January 1, 1998	--	$ --	$ 6,524,735
Issuance of preferred Stock for acquisition of Major Automotive Group			6,000,000
Issuance of common stock for services and equipment			3,405,915
Net income			528,140
Translation adjustment			(5,274)
Balance December 31, 1998	--	--	16,453,516
Issuance of common stock for services and deposits	--	--	1,972,817
Net income	--	--	115,688
Translation adjustment	--	--	1,121
Repurchase of common stock	15,618	(65,596)	(65,596)
	15,618	$ (65,596)	$ 18,477,546

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1999	1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 115,688	$ (68,572)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of intangible assets	102,475	84,738
Depreciation	59,194	100,311
Deferred income taxes	--	(21,000)
Noncash item-stock-based compensation	196,142	--
(Increase) decrease in assets:		
Net investment in direct financing leases	137,526	(33,380)
Notes receivable	--	(2,100)
Accounts receivable	(6,015,930)	(156,118)
Inventories	(3,294,655)	45,883
Other assets	(456,342)	(27,540)
Increase (decrease) in liabilities:		
Accounts payable	3,860,841	216,888
Accrued expenses	512,345	(227,960)
Floor plan notes payable	4,578,306	--
Deferred revenue	--	(24,457)
Customer deposits	319,125	(44,584)
Net cash provided by (used in) operating activities	114,715	(157,891)
Cash flows used in investing activities:		
Additions to property and equipment,	(163,479)	(18,254)
Net cash used in investing activities	(163,479)	(18,254)
Cash flows from financing activities:		
Repurchase of common stock	(65,596)	--
Line of credit	(450,000)	100,000
Proceeds from long-term debt	--	204,760
Payments of long-term debt	(164,408)	(192,461)
Proceeds from convertible debentures	2,750,000	--
Increase in due from shareholders	(150,000)	--
Net cash provided by (used in) financing activities	1,919,996	112,299
Effect of exchange rates on cash	1,121	70
Net increase (decrease) in cash and cash equivalents	1,872,353	(63,776)
Cash and cash equivalents, beginning of period	820,832	217,191
Cash and cash equivalents, end of period	$ 2,693,185	$ 153,415
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 444,283	$ 26,223
Income taxes	$ 501,500	$ --

</TABLE>

FIDELITY HOLDINGS INC, AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

MARCH 31, 1999

1. Basis of Presentation

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly present the Company's financial position and its results of operations and cash flows as of the dates and for the periods indicated.

Certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been omitted. These condensed consolidated financial statements should be read in conjunction with the audited December 31, 1998 consolidated financial statements and related notes included in the Company's Form 10KSB for the year ended December 31, 1998. The results of operations for the three months are not necessarily indicative of the operating results for the full year.

Amounts for the three months ended March 31, 1998 have been reclassified to conform with the March 31, 1999 presentation.

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Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the operations, financial condition, liquidity and capital resources of Fidelity Holdings, Inc. and its subsidiaries (the "Company") should be read in conjunction with the Company's unaudited Consolidated Financial Statements and related note thereto included elsewhere herein.

This discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ significantly from the results discussed in the forward-looking statements.

The Company

On May 14, 1998, the Company acquired, from a related party, the Major Automotive Group of dealerships ("Major Auto") and related real property and leases. In conformity with generally accepted accounting principles, the consolidated results of operations of the Company include the results from Major Auto only since the date of acquisition on May 14, 1998. Accordingly, while the results of operations for the three months ended March 31, 1999 include the results for Major Auto, there are no comparable results for the first quarter of 1998.

Previously, as a holding company, Fidelity Holdings, Inc. was involved in the acquisition and development of synergistic technological and telecommunications businesses. The Company's Board of Directors has determined to explore the divestiture of the Company's non-automotive operations in order to maximize shareholders' value from those operations and to maintain the Company's focus on the regional consolidation of retail automotive dealerships. Accordingly, all non-automotive operations have been classified collectively as "Discontinued Operations." Continuing operations are represented by the Company's Major Auto subsidiary and the Company's automotive leasing subsidiary, Major Fleet and Leasing, Inc. ("Major Fleet").

Results of Continuing Operations - Three Months Ended March 31, 1999 and Three Months Ended March 31, 1998

Revenues. Revenues for the three-month period ended March 31, 1999 increased approximately $45.7 million over the prior comparable period. Such increase was almost solely attributable to the revenues of Major Auto, which were $45,672,235 for the 1999 quarter. There was no comparable amount in the corresponding period in 1998. A comparison of the average monthly revenue for Major Auto for the seven and one-half month period it was owned by the Company in 1998 with the average monthly revenue generated by Major Auto during the first three months of 1999 shows an approximate 17% increase. Management believes that this increase in average monthly sales is primarily attributable to Major Auto's successful efforts in selling used vehicles at its expansive facility in Long Island City, New York. More than 400 used cars were sold during each of the months in the 1999 period. Major Auto's initiatives included extensive Internet promotions, local advertising in all media and the branding of its used car operation as "Major World." Additionally, the relatively mild winter in the New York Metropolitan area contributed to increased

sales during these months when automotive sales, traditionally, decrease. The results of this quarter are not necessarily indicative of the results for any future period or the full year of 1999.

Cost of Sales. The cost of sales of $38.8 million for the three months ended March 31, 1999 is solely attributable to Major Auto's operations. There is no comparable amount for the prior year.

Gross profit. Of the total gross profit of almost $7.1 million for the three months ended March 31, 1999, Major Auto generated $6.9 million. Gross profit as a percentage of sales for Major Auto during the 1999 first quarter was 15.1%. Although there was no comparable amount for the first quarter of 1998, the gross profit percentage for Major Auto in 1998 during the seven and one-half months since its acquisition on May 14, 1998 was 13.8%. Management believes that the increase in gross profit percentage is primarily attributable to the increased volume of used vehicle sales as a percentage of total sales during the first quarter of 1999, as compared with the seven and one-half month 1998 period.

Operating expense. In the three months ended March 31, 1999, operating expenses increased approximately $5.3 million to almost $5.6 million, from $247,000. Substantially all of this increase resulted from the acquisition of Major Auto. Operating expenses attributable to Major Auto aggregated $5.1 million in the first quarter of 1999.

Interest expense. Interest expense had a net increase of $418,000 to $444,000 in the first quarter of 1999 from interest expense of $26,000 incurred in the comparable prior period. This is primarily related to the floor plan interest of $178,000 and interest incurred in financing the acquisition of Major Auto amounting to $188,000 and, to a lesser extent, $50,000 of interest accrued on outstanding convertible debentures.

Discontinued operations. The Company experienced a loss from discontinued operations in the first quarter of 1999 of $(728,492) compared with a profit of $18,979 in discontinued operations in the comparable prior period. This is primarily the result of the Company's decision in the third quarter of 1997 to acquire the territorial and other rights and equipment of its existing Master Agents. Accordingly, the Company ceased selling to Master Agents during the third quarter of 1997 and has had no revenue from this source since then. Additionally, the Company has been seeking the appropriate economically viable means to divest itself of its non-automotive operations, including its telephony technology, IG-2 project and plastics operations. In order to do so at the maximum potential valuation, the Company has incurred the costs necessary to maintain and enhance those facets of its business in order to make them marketable. All such costs are included in discontinued operations.

Assets, Liquidity and Capital Resources - March 31, 1999

At March 31, 1999, total assets of the Company were $62 million, an increase of approximately $12.5 million from December 31, 1998. This increase is primarily related to the increase in Major Auto's accounts receivable of approximately $5.0 million, the increase in Major Auto's inventories of

approximately $3.3 million and a net increase in cash of approximately $2.0 million. The increase in accounts receivable and inventories is directly related to Major Auto's increased sales levels during the first quarter of 1999. The increase in cash is primarily attributable

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to the proceeds from the sale of $2.75 million of 12% convertible debentures during the period. Included in the Company's current assets is $6,369,927 of net assets held for sale. This amount represents the total of assets less related liabilities from the Company's former Technology and Plastics Divisions, the operations of which the Company is seeking to divest in an economically productive manner.

The Company's primary source of liquidity for the three months ended March 31, 1999 was $1,919,966 from its financing activities. This was the net effect of the proceeds from the sale of $2,750,000 in 12% convertible debentures as offset by payments of outstanding debt of $614,408, an increase in due from shareholders of $150,000 and the purchase of treasury stock for $65,596.

Additional net cash of $114,715 was generated from operating activities comprised of:

(a) Cash from income of $473,499, resulting from net income of $115,688, as adjusted by non-cash charges of $357,811; and

(b) An increase in liabilities of $9,270,617, primarily from the increase in notes payable, accounts payable and accrued expenses aggregating $8,951,492; less

(c) A net increase in operating assets of $9,629,401, primarily from increases of $6,015,930 in accounts receivable and $3,294,655 in inventories.

The changes in accounts receivable, inventories and payables cited in (b) and (c) above, are substantially attributable to the higher level of activities associated with Major Auto's increased sales during the first quarter of 1999.

The net increase in cash from operating activities was more than offset by the cash used in investing activities of $163,479 for the net additions to property, plant and equipment.

The foregoing activities, i.e. financing, operating and investing, resulted in a net cash increase of $1,872,353 for the three months ended March 31, 1999.

The Company believes that the cash generated from existing operations, together with cash on hand, available credit from its current lenders, including banks and floor planning, will be sufficient to finance its current operations, planned expansion and internal growth for at least the next twenty-four months.

On May 3, 1999 the Company announced the declaration of a stock dividend payable as one share of common stock for each two shares held of record. The dividend is payable to shareholders of record as of May 18, 1999.

Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates are processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than

<PAGE>

a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures, which could affect an entity's ability to conduct normal business operations.

The Company recognizes the need to ensure its operations will not be adversely impacted by the inability of the Company's systems to process data having dates that could be affected by the Year 2000 issue. The Company is currently addressing the risk with respect to the availability and integrity of its financial systems and operating systems. While the Company believes its planning efforts are adequate to address the Year 2000 concerns, there can be no assurance that the systems of other companies, including suppliers, customers and others on which the Company's operations rely are, or will be made, compliant on a timely basis and will not have a material effect on the Company. However, all such significant systems are being evaluated for compliance. The cost of the Company's Year 2000 compliance effort is not expected to be material to the Company's results of operations or financial position.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not engaged in any litigation other than as previously reported.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

The Company filed a report on Form 8-K on February 3, 1999 in connection with the private placement of its securities with certain independent investors. The Form 8-K and the exhibits attached thereto are incorporated herein by reference.

Exhibit 27. Financial Data Schedule

<PAGE>

SIGNATURES

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

FIDELITY HOLDINGS, INC.

Date: May 14, 1999

/s/ Doron Cohen

Doron Cohen, President

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS AND RELATED FOOTNOTES OF FIDELITY HOLDINGS, INC. AND SUBSIDIARIES AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS AND FOOTNOTES.
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 1998

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from ___ to ___

Commission file number 0-29182

Fidelity Holdings, Inc.
(Name of Small Business Issuer in Its Charter)

Nevada	11-3292094
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

80-02 Kew Gardens Road, Suite 5000

Kew Gardens, New York	11415
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code (718) 520-6500

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

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

Common Stock, par value $.01 per share
(Title of Class)

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

Yes X No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this Form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Issuer's revenues for its most recent fiscal year: $98,578,970.

The approximate aggregate market value of the Company's common stock held by non-affiliates, computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of April 8, 1999 was $59,000,603. The number of shares outstanding of the Company's common stock on April 8, 1999, was 8,522,121 shares.

PART I

Item 1. Description of Business.

The statements which are not historical facts contained in this Annual Report are forward looking statements that involve risks and uncertainties, including, but not limited to, possible delays in the Company's expansion efforts, divestiture efforts, changes in automotive, telephony and communication markets and technologies, government regulation, the nature of possible supplier or customer arrangements which may become available to the Company in the future, possible technological obsolescence, uncollectible accounts receivable, slow moving inventory, lack of adequate financing, increased competition and unfavorable general economic conditions. The Company's actual results may differ materially from the results discussed in any forward looking statement.

General

Fidelity Holdings, Inc. ("the Company") was incorporated in Nevada on November 7, 1995. The Company historically has operated as a holding company and, accordingly, derived its revenues solely from its operating subsidiaries. The Company's first full year of operations was 1996. The operating subsidiaries of the Company have been grouped into two divisions: Automotive and Technology. The Automotive Division operates through Major Automotive Group ("Major Auto"), a leading consolidator of automobile dealerships in the New York Area which operates through five retail automobile dealerships. The operations of the Company's Leasing division are included in the Automotive Division and consist of providing leases and other financing. Such activities are directed primarily toward the automotive vehicle market. The Technology Division has operated through voice processing and computer telephony technology divisions. Unless otherwise indicated, all references to the Company include reference to the subsidiaries of the Company.

Through its Technology Division, the Company has provided a broad range of telecommunications services. Included in its telecommunications product lines are its (i) proprietary software which enables consumers to place long-distance telephone calls at discounted rates and (ii) a variety of sophisticated interactive voice response applications. This division also developed, and presently markets and sells, a proprietary computer software system that provides multi-lingual accounting and business management applications.

Included in the Technology Division is the Company's plastics and utility products operations which currently consists of a development-stage company which was acquired in 1996. Its proprietary prototypes include a line of spa and bath fixtures for use in whirlpool baths, spas, tubs and swimming pools and a light-weight, structurally strong, prefabricated conduit for underground electrical cables. As this division's products are still under development, no commercial sales have as yet been made.

Discontinued Operations

In December 1998, the Company announced its intention to explore the possible divestiture of its non-automotive activities, specifically, its Technology Division, by way of sale, merger, consolidation or otherwise. The Company continues to maintain these activities in order to maximize their value to potential acquirors. The

Company believes that this course of action will serve to enhance shareholder value by providing the investment community the opportunity to focus separately on each business, thus allowing for appropriate valuations by market segment. Accordingly, all such non-automotive activities have been classified as discontinued operations in the accompanying consolidated financial statements.

Automotive Division

Major Auto Acquisition

On April 21, 1997, the Company and its wholly-owned subsidiary, Major Acquisition Corp., entered into a merger agreement (the "Merger Agreement") with Major Automotive Group, Inc. ("Major Auto") and its sole stockholder, Bruce Bendell, who is the Company's chairman and the beneficial owner of approximately 44.14% of the Company's outstanding common stock. Mr. Bendell owned all of the issued and outstanding shares of common stock of Major Chevrolet, Inc. ("Major Chevrolet") and Major Subaru, Inc. ("Major Subaru") and 50% of the issued and outstanding shares of common stock of Major Dodge, Inc. ("Major Dodge") and Major Chrysler, Plymouth, Jeep Eagle, Inc. ("Major Chrysler, Plymouth, Jeep Eagle"), which, collectively, operated five franchised automobile dealerships(collectively, the "Major Auto Group").

On May 14, 1998, pursuant to the Merger Agreement, Bruce Bendell contributed to Major Auto all of his shares of common stock of Major Chevrolet, Major Subaru, Major Dodge and Major Chrysler, Plymouth, Jeep Eagle. Major Acquisition Corp. then acquired from Bruce Bendell all of the issued and outstanding shares of common stock of Major Auto in exchange for shares of a new class of the Company's preferred stock. Major Acquisition Corp. purchased the remaining 50% of the issued and outstanding shares of common stock of Major Dodge and Major Chrysler, Plymouth, Jeep Eagle from Harold Bendell, Bruce Bendell's brother, for $4 million in cash pursuant to a stock purchase agreement. In addition, Major Acquisition Corp. acquired two related real estate components (the "Major Real Estate", defined hereinafter) from Bruce Bendell and Harold Bendell (collectively "the Bendells") for $3 million.

The preferred stock issued to Bruce Bendell is designated as the "1997-MAJOR Series of Convertible Preferred Stock." It has voting rights and is convertible into the Company's common stock (the "Common Stock'). The number of shares of Common Stock into which the 900,000 shares of 1997-MAJOR Series of Convertible Preferred Stock issued to Mr. Bendell is convertible is 1.8 million shares. The foregoing acquisitions from Major Auto and Harold Bendell are collectively referred to herein as the "Major Auto Acquisition."

The Merger Agreement allocated the value of the consideration paid to Bruce Bendell as follows: (i) 61% to Major Chevrolet; (ii) 5.8% to Major Subaru; (iii) 16.6% to Major Dodge; and (iv) 16.6% to Major Chrysler, Plymouth, Jeep Eagle. The stock purchase agreement allocated the value of the consideration paid to Harold Bendell 50% to each of Major Dodge and Major Chrysler, Plymouth, Jeep Eagle.

To finance the cash portion of the Major Auto Acquisition, aggregating $7 million ($4 million for Harold Bendell and $3 million to purchase the Major Real Estate), Major Acquisition Corp. borrowed $7.5 million from Falcon Financial, LLC ("Falcon") pursuant to a loan and security agreement dated May 14, 1998, for a 15 year term at an interest rate of 10.18%. Prepayment is not be permitted for the first five years, after which time prepayment may be made, in full only, along with the payment of a premium.

The collateral securing the Falcon loan transaction includes the Major Real Estate and, subject to the interests of any current or prospective "floor plan or cap loan lender," the assets of Major Acquisition Corp. Major Acquisition Corp. is required to comply with certain financial covenants related to net worth and cash flow. In addition, the Company provided an unconditional guarantee of the Falcon loan pursuant to a guarantee agreement dated May 14, 1998.

General

Major Auto is one of the largest volume automobile retailers in New York City. Major Auto owns and operates the following five franchised automobile dealerships in the New York metropolitan area: (i) Chevrolet; (ii) Chrysler and Plymouth; (iii) Dodge; (iv) Jeep; and (v) Subaru. Major Auto also distributes General Motors vehicles

in the Ukraine. Through its dealerships, Major Auto sells new and used automobiles, provides related financing, sells replacement parts and provides vehicle repair service and maintenance.

Major Auto's President, Bruce Bendell, has approximately 27 years experience in the automobile industry. He began selling and leasing used vehicles in 1972 and has owned and managed franchised automobile dealerships since he acquired Major Auto's Chevrolet dealership in 1985. Under Mr. Bendell's leadership, Major Auto has expanded from a single-franchise dealership having approximately $10 million in revenues and 25 employees in 1985 to a five-franchise dealership group having approximately $150 million in revenues (including revenues of approximately $98 million since May 14, 1998, the date of its acquisition by the Company) and 175 employees in 1998.

Industry Background

Automobile manufacturers distribute their new vehicles through franchised dealerships. According to industry data from the National Automobile Dealers Association ("NADA data"), in 1998, total dollar sales, consisting of the sale of all new and used vehicles and service and parts, of all franchised new-car dealerships increased 11% to a record high of approximately $560 billion. Franchised dealerships located in the New York State had an estimated total dollar sales of $25.3 million.

According to NADA data, on average, in 1998 new vehicle sales constitute 59% of a franchised dealership's total sales. Unit sales of new vehicles rose 7.3% in 1998 to a total of 16.2 million units sold. At an average retail selling price of $23,633 per vehicle, new vehicle sales totaled approximately $383 billion in 1998. From 1993 to 1998 sales revenue from the sale of new vehicles increased approximately 51%. The annual net profit of the typical United States franchised dealer's new vehicle department is estimated to be $50,173 retailed.

According to NADA data, on average in 1998, used vehicle sales constitute 29.4% of a franchised dealerships' total sales. In 1998, franchised new vehicle dealers sold 12.2 million retail used vehicles. At an average selling price of $12,501 per vehicle, used vehicle sales totaled approximately $153 billion in 1998. From 1993 to 1998 sales revenue from the retail sale of used vehicles increased approximately 69% and the combined sales revenue from the retail and wholesale sale of used vehicles increased approximately 56%. The annual net profit of the typical United States franchised dealer's used vehicle department is estimated to be $154,311 including wholesale and retail. The NADA data cites that for all United States dealerships, the net profit from sales of used vehicles is approximately three times the net profit from the sales of new vehicles. No assurance can be given that results of Major Auto's operations will conform to NADA's industry data.

The following table sets forth information regarding vehicle sales by franchised new vehicle dealerships for the periods indicated:

UNITED STATES FRANCHISED DEALER'S VEHICLES SALES

	1993	1994	1995	1996	1997	1998
	(Units in millions; dollars in billions)					
New vehicle unit sales	13.9	15.1	14.8	15.1	15.1	16.2
New vehicle sales revenue(1)	$253.0	$290.0	$303	$328.0	$338.2	$383.0
Used vehicle unit sales- retail	9.9	10.9	11.4	11.9	12.0	12.2
Used vehicle retail sales revenue	$90.4	$111.0	$126.0	$137.0	$145.2	$153.0
Used vehicle unit sales-wholesale	6.4	6.8	7.0	7.2	7.1	7.1
Used vehicle wholesale sales revenue	$24.0	$27.7	$30.3	$33.4	$34.6	$35.7

(1) Sales revenue figures were generated by multiplying the total unit sales by the average retail selling price of the vehicle for the given year.

Source: National Automobile Dealers Association (NADA) Data 1999 (1998 data preliminary and estimated).

In addition to revenues from the sale of new and used vehicles, automotive dealerships derive revenues from repair and warranty work, sale of replacement parts, financing and credit insurance and the sale of extended warranty coverage. According to NADA data, revenues resulting from service and parts sales increased approximately 3% in 1998 for franchised dealerships, a portion of which is accounted for by the increase in the amount of used vehicle reconditioning. Revenue from parts and services constitutes, on average, approximately 11.6% of a franchised dealership's total sales and generates an annual net profit of approximately $150,000.

Automotive dealerships' profits vary widely and depend in part upon the effective management of inventory, marketing, quality control and responsiveness to customers. According to NADA data, in 1998, total franchised dealership gross profits were, on average, $3.1 million with an average net profit of $403,000.

To reduce the costs of owning a new vehicle, automobile manufacturers in recent years have offered favorable short-term lease terms. This has attracted consumers to short-term leases and has resulted in consumers returning to the new vehicle market sooner than if they had purchased a new vehicle with longer-term financing. In addition, this has provided new car dealerships with a continuing source of off-lease vehicles and has also enabled dealerships' parts and service departments to provide repair service under factory warranty for the lease term.

The automotive dealership industry has been consolidating in recent years. Until the 1960s, automotive dealerships were typically owned and operated by a single individual who controlled a single franchise. However, because of competitive and economic pressures in the 1970s and 1980s, particularly the oil embargo of 1973 and the subsequent loss of market share experienced by United States automobile manufacturers to imported vehicles, many automotive dealerships were forced to close or to sell to better-capitalized dealer groups. Continued competitive and economic pressure faced by automotive dealers and an easing of restrictions imposed by automobile manufacturers on multiple-dealer ownership have led to further consolidation. According to NADA data, the number of franchised dealerships has declined from 36,336 in 1960 to 22,400 at the beginning of 1998.

Major Auto believes that franchised automobile dealerships will continue to consolidate because the capital required to operate dealerships continues to increase, many dealership owners are approaching retirement age and certain automobile manufacturers want to consolidate their franchised dealerships to strengthen their brand identity. For example, management believes that General Motors Corporation is implementing a strategy to reduce its franchised dealerships by 1,500 from 8,400 by the year 2000. Ford Motor Co. has also been trying to reduce the number of its franchises as part of a campaign to upgrade its retail networks and make these dealers that remain more profitable. Major Auto believes that dealership groups that have significant equity capital and experience in acquiring and running dealerships will have an opportunity to acquire additional franchised dealerships.

Operating Strategy

Major Auto's operating strategy is to continually increase customer satisfaction and loyalty and to increase operating efficiencies. Key elements of this operating strategy are as follows:

Major World Branding. Major Auto has established its Major World brand and www.majorworld.com Internet brand for its current used car operations and those of Major Auto's participating regional dealerships. With centralized buying and advertising as its focus, Major World is a natural extension of the Company's efforts in its regional acquisition strategy and its accomplishments in used car sales through its dealerships in the metropolitan New York area.

Internet Sales and Other Technology. Major Auto believes that it has achieved a competitive advantage through the use of technology. Major Auto was one of the first dealership groups to provide its customers with a 1-800 telephone number and price quotations via facsimile. During the past several years, Major Auto has increased its revenue to a present level of more than $1 million each month from its Internet website, www.majorworld.com and other electronic media such as Bloomberg. Major Auto presently enables its customers to obtain credit approvals over the telephone via its proprietary Talkie-AutoCom, a customized application of the Company's "Talkie" telephone interactive voice response system (see "Computer Telephony and Telecommunications Division — Talkie"), that operates 24 hours per day, seven days per week and in nine different languages. Major Auto is presently expanding its use of Talkie-AutoCom to permit customers to obtain answers to the most frequently asked

questions, obtain price quotes, place orders, schedule and confirm service appointments, obtain directions to the dealership and request faxes of product and price information. Major Auto is also intending to expand its use of Talkie-AutoCom to call its customers automatically to notify them of required maintenance, sales and promotions and to solicit customer satisfaction information. In addition, Major Auto intends to explore new ways to use technology to provide better customer service. Major Auto has developed and is in the process of beta-testing an Internet-based marketing system called MajorAuction.com to provide electronically, visual and textual information regarding vehicles sold by Major Auto and enable customers to: (i) purchase a new or used vehicle on-line; (ii) participate in a real-time auction for a specific vehicle; and (iii) arrange for the related financing.

Focus on Used Vehicle Sales. A key element of Major Auto's operating strategy is to focus on the sale of used vehicles. In 1998, approximately 12.2 million used cars were sold retail by dealers, more than fifty percent more than the number of such sales in 1980. Sales of used vehicles are generally more profitable than sales of new vehicles. Management believes that the New York metropolitan area is one of the largest markets for used car sales in the United States and that Major Auto sells more used cars in the New York metropolitan area than any other automobile dealership or dealership group. Major Auto strives to attract customers and enhance buyer satisfaction by offering multiple financing and leasing options and competitive warranty products on every used vehicle it sells. Major Auto believes that a well-managed used vehicle operation affords it an opportunity to: (i) generate additional customer traffic from a wide variety of prospective buyers; (ii) increase new and used vehicle sales by aggressively pursuing customer trade-ins; (iii) generate incremental revenues from customers financially unable or unwilling to purchase a new vehicle; and (iv) increase ancillary product sales to improve overall profitability. To maintain a broad selection of high-quality used vehicles and to meet local demand preferences, Major Auto acquires used vehicles from trade-ins and a variety of sources nationwide, including direct purchases from individuals and fleets, and manufacturers' and independent auctions. Major Auto believes that the price at which it acquires used vehicles is the most significant factor contributing to the profitability of its used vehicle operations. Major Auto believes that, because of the large volume of used vehicles that it sells each month and the more than 27 years of experience in the used vehicle business of its senior management, it is able to identify quality used vehicles, assess their value and purchase them for a favorable price.

Emphasize Sales of Higher Margin Products and Services. Major Auto generates substantial incremental revenue and achieves increased profitability through the sale of certain ancillary products and services such as financing, extended service contracts and vehicle maintenance. Major Auto provides its employees with special training and compensates them, in part, with commissions based on their sales of such products and services. Major Auto believes that these ancillary products and services enhance the value of purchased or leased vehicles and increase customer satisfaction.

Provide a Broad Range of Products and Services. Major Auto offers a broad range of products and services, including an extensive selection of new and used cars and light trucks, vehicle financing, replacement parts and service. At its four locations, Major Auto offers, collectively, six makes of new vehicles, including Chevrolet, Chrysler, Plymouth, Dodge, Jeep and Subaru. In addition, Major Auto sells a variety of used vehicles at a wide range of prices. Major Auto believes that offering numerous makes and models of vehicles, both new and used, appeals to a broad cross section of customers, minimizes dependence on any one automobile manufacture, and helps reduce its exposure to supply problems and product cycles.

Operate Multiple Dealerships in Target Market. Major Auto's goal to become the leading automotive dealer in its target market by operating multiple dealerships in that market. To accomplish this, Major Auto seeks to acquire new franchises in its existing market and to expand its existing franchises to new markets. This strategy enables Major Auto to achieve economies of scale in advertising, inventory management, management information systems and corporate overhead.

Target Sales to Ethnic Groups. Because the New York metropolitan area, Major Auto's primary market, is ethnically diverse, Major Auto targets its selling efforts to a broad range of ethnic groups. In addition to offering pre-paid international telephone calling time, Major Auto employs a multi-lingual sales force and intends to expand its electronic media to accommodate multiple languages.

Leverage the Sale of International Calling Time. Major Auto offers customers pre-paid international telephone calling time in connection with the purchase or lease of its automobiles. To accomplish this, Major Auto

utilizes the Company's proprietary Talkie technology, which is able to provide users with international calling time at sharply discounted rates. Because Major Auto purchases telephone time from the Company at below-market rates, the cost to Major Auto of implementing this program is minimal compared with the savings realized by its customers. Major Auto's primary market, the New York metropolitan area, is home to many diverse ethnic groups who have family and friends whom they call frequently in their native countries. By offering pre-paid international telephone calling time with the purchase or lease of a vehicle, Major Auto believes that it adds value to its customers and thereby increase customer satisfaction and loyalty.

Employ Professional Management Techniques. Major Auto employs professional management techniques in all aspects of its operations, including information technology, employee training, profit-based compensation and cash management. Each of Major Auto's four dealership locations, its centralized used vehicle operation and its two service and parts operations is managed by a trained and experienced general manager who is primarily responsible for decisions relating to inventory, advertising, pricing and personnel. Major Auto compensates its general managers based, in part, on the profitability of the operations they control rather than on sales volume. Major Auto's senior management meets weekly with its general managers and utilizes computer-based management information systems to monitor each dealership's sales, profitability and inventory on a daily basis and to identify areas requiring improvement. Major Auto believes that the application of its professional management techniques provides it with a competitive advantage over other dealerships and dealership groups.

Growth Strategy

The Company intends to expand its business by acquiring additional dealerships and improving their performance and profitability by implementing its operating strategy. As part of its growth strategy, the Company intends to focus its efforts on dealerships or dealer groups that, among other criteria, possess either the sole franchise of a major automobile manufacturer or a significant share of new vehicle sales in each targeted market and that it believes are underperforming. In evaluating potential acquisition candidates, the Company will also consider the dealership's or dealer group's profitability, customer base, reputation with customers, strength of management and location (e.g., along a major thoroughfare or interstate highway), and the possibility that the Company will be able to acquire additional franchises in that market to achieve larger market share. Major Auto believes that the most attractive acquisition candidates can be found in the New York metropolitan area, but the Company may consider acquisitions in other markets. The Company's financing of such acquisitions may involve expending cash, incurring debt or issuing equity securities, which could have a dilutive effect on the then outstanding capital stock of the Company. The Company, like all other automotive dealership holding companies, will continue to be subject to the requirement of obtaining prior approval for each acquisition from the appropriate automotive manufacturer.

Upon completing an acquisition, the Company intends to implement its operating strategy, which includes selling more new and used vehicles, increasing finance revenues, enhancing employee training, lowering purchasing costs for used car inventories, supplies and outside vendor expenses. The Company also intends to install its management information system in acquired dealerships as soon as possible after the acquisition, which will allow its senior management to carefully monitor each aspect of the dealership's operations and performance. Whenever possible, the Company intends to implement its strategies and operation procedures prior to the closing of an acquisition to enable it to accelerate the implementation of its operating strategy after closing. See "Operating Strategy." No assurance can be given that the Company will successfully locate suitable acquisition candidates, or even if such candidates are located and acquired, that such acquisitions will ultimately prove profitable to the Company.

The Company believes that Major Auto's management team has considerable experience in evaluating potential acquisition candidates, determining whether a particular dealership can be successfully integrated into Major Auto's existing operations and implementing its operating strategy to improve their performance and profitability following the acquisition. For example, Bruce Bendell, Major Auto's President, acquired a Nissan dealership in Oyster Bay, New York in January 1997. The Nissan dealership is not owned or operated by Major Auto, but is majority-owned by Mr. Bendell and minority-owned by another individual otherwise unaffiliated with the Company or Mr. Bendell. The Company and Mr. Bendell are currently negotiating a letter of intent concerning the Company's acquisition of Oyster Bay Nissan. See "Proposed Acquisitions." Upon Mr. Bendell's acquisition of the Nissan dealership, it was selling 90 new and 20 used vehicles per month and was not generating any profits from such sales. Under Mr. Bendell's leadership, the dealership has expanded its sales to over 200 new and used vehicles

per month. The Company also believes that an increasing number of acquisition opportunities will become available to it. See "Industry Background."

Dealership Operations

Major Auto owns and operates five automobile dealerships at four locations in Long Island City, New York. Major Auto conducts its parts and service business and its used vehicle business from three additional locations in Long Island City. Major Auto offers the following six makes of new vehicles: Chevrolet, Chrysler, Plymouth, Dodge, Jeep and Subaru. Each location is run by a separate general manager who is responsible for overseeing all aspects of the business conducted at that location. Each of the parts and service locations has two general managers, one for parts and one for service. Each general manager meets with Major Auto's senior management, including Bruce Bendell and Harold Bendell, on a weekly basis.

Bruce Bendell and Harold Bendell are responsible for senior-level management of the dealerships. The Bendell brothers' management control is accomplished through (i) their ownership of 100 shares of the Company's 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock (of which shares Bruce Bendell has a proxy to vote the 50 shares of the 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock owned by Harold Bendell for a seven-year period which commenced on January 7, 1998) which carries voting rights allowing them to elect a majority of the Board of Directors of Major Auto, and through (ii) a related management agreement. See "Description of Securities-Preferred Stock-1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock" and "Certain Relationships and Related Transactions" below. Should either of the Bendell brothers cease managing the dealerships, the management agreement provides that ownership of his 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock shares and his management rights under the management agreement will be automatically transferred to the other, and should both brothers cease managing the dealerships for any reason, the shares and management rights will be automatically transferred to a successor manager designated in a successor addendum to each dealership agreement or, failing such designation, to a successor manager designated by the Company (subject to approval by the applicable manufacturers).

New Vehicle Sales. Major Auto sells the complete product line of cars, sport utility vehicles, minivans and light trucks manufactured by Chevrolet, Chrysler, Plymouth, Dodge, Jeep and Subaru. For the period from May 14, 1998 (date of acquisition) through December 31, 1998, Major Auto's dealerships sold 1,995 new vehicles generating total sales of approximately $47,000,000, which constituted approximately 48% of Major Auto's total revenues. Major Auto's gross profit margin on new vehicle sales for the period from May 14, 1998 (date of acquisition) through December 31, 1998, was approximately 9.4% which is higher than the industry average for all of 1998 of 6.5%. The relative percentages of Major Auto's new vehicle sales among makes of vehicles for the period from May 14, 1998 (date of acquisition) through December 31, 1998, was as follows:

Manufacturer	Percentage of New Vehicle Sales
Chevrolet	36%
Chrysler, Plymouth and Jeep	32%
Dodge	26%
Subaru	6%

The following table sets forth information with respect to Major Auto's new vehicle sales for the period May 14, 1998 (date of acquisition) through December 31, 1998:

NEW VEHICLE SALES
(dollars in thousands)

Unit sales	1,995
Sales revenue	$47,000
Gross Profit	$ 4,400
Gross Profit Margin	9.4%

Major Auto purchases substantially all of its new vehicle inventory directly from the respective manufacturers who allocate new vehicles to dealerships based upon the amount of vehicles sold by the dealership and the dealership's market area. As required by law, Major Auto posts the manufacturer's suggested retail price on all new vehicles, but the final sales price of a new vehicle is typically determined by negotiation between the dealership and the purchaser.

In addition to its dealership operations, Major Auto has a distributorship agreement with General Motors pursuant to which Major Auto distributes in the Ukraine new vehicles manufactured by General Motors. Major Auto generally receives a deposit on the purchase price of the vehicle from the Ukrainian dealer and releases the vehicle to the dealer upon full payment of the balance of the wholesale purchase price plus a percentage of the dealer's profit on the sale. Major Auto intends to expand its distributorship operation in the future to include the sale of used vehicles. To facilitate this facet of its operations, the Company recently entered into a consulting agreement with Clemont Investments Ltd. ("Clemont"), a consulting firm which provides business advisory services regarding the establishment in Europe of branches or operations of U.S. based companies. See "Certain Relationships and Related Transactions."

Used Vehicle Sales. Major Auto offers a wide variety of makes and models of used vehicles for sale. For the period from May 14, 1998 (date of acquisition) through December 31, 1998, Major Auto sold 3,177 used vehicles generating total sales of approximately $44,000,000, which constituted approximately 45% of Major Auto's total revenues. Major Auto's gross profit margin on used vehicle sales for the period from May 14, 1998 (date of acquisition) through December 31, 1998, was approximately 14.8% as compared with the industry average for all of 1998 of 10.8%. Major Auto believes it is the largest seller of used vehicles (based on unit sales and sales revenue) in the New York metropolitan area.

Major Auto has consolidated its used vehicle operations for its various dealerships at a single site. Major Auto acquires the used vehicles it sells through customer trade-ins, at "closed" auctions which may be attended by only new vehicle dealers and which offer off-lease, rental and fleet vehicles, and at "open" auctions which offer repossessed vehicles and vehicles being sold by other dealers.

Major Auto believes that the market for used vehicles is driven by the escalating purchase price of new vehicles and the increase in the quality and selection of used vehicles primarily due to an increase in the number of popular cars coming off short-term leases.

The following table sets forth information with respect to Major Auto's used vehicle sales for the period from May 14, 1998 (date of acquisition) through December 31, 1998:

USED VEHICLE SALES
(dollars in thousands)

Unit sales	3,177
Sales revenue	$43,900
Gross Profit	$6,500
Gross Profit Margin	14.8%

Parts and Service. Major Auto provides parts and service primarily for the makes of new vehicles that it sells, but also services other makes of vehicles. For the period from May 14, 1998 (date of acquisition) through December 31, 1998, Major Auto's parts and service operations generated total revenues of approximately $6,700,000, which constituted approximately 7% of Major Auto's total revenues at a gross profit margin of approximately 37%.

The increased use of electronics and computers in vehicles has made it difficult for independent repair shops to retain the expertise to perform major or technical repairs. In addition, because motor vehicles are increasingly more complex and there are longer warranty periods, Major Auto believes that repair work will increasingly be performed at dealerships, which have the sophisticated equipment and skilled personnel necessary to perform the repairs.

Major Auto considers its parts and service department to be an integral part of its customer service efforts and a valuable opportunity to strengthen customer relations and deepen customer loyalty. Major Auto attempts to notify owners of vehicles purchased at its dealerships when their vehicles are due for periodic service, thereby encouraging preventative maintenance rather than post-breakdown repairs.

Major Auto's parts and service business provides a stable, recurring revenue stream to its dealerships. In addition, Major Auto believes that, to a limited extent, these revenues are countercyclical to new vehicle sales, since vehicle owners may repair their existing vehicles rather than purchasing new vehicles. Major Auto believes that this helps mitigate the effects of a downturn in the new-vehicle sales cycle.

Major Auto does not operate a body shop, but instead contracts with third parties for body repair work.

The following table sets forth information with respect to Major Auto's sales of parts and services for the period from May 14, 1998 (date of acquisition) through December 31, 1998:

SALES OF PARTS AND SERVICES
(dollars in thousands)

Sales Revenue	$6,700
Gross Profit	$2,500
Gross Profit Margin	37%

Vehicle Financing. Major Auto provides a wide variety of financing and leasing alternatives for its customers. Major Auto believes that its customers' ability to obtain financing at its dealerships significantly enhances Major Auto's ability to sell new and used vehicles. Major Auto believes that its ability to provide its customers with a variety of financing options provides Major Auto with an advantage over many of its competitors, particularly smaller competitors that do not have sufficient sales volumes to attract the diversity of financing sources available to Major Auto.

In most instances, Major Auto assigns its vehicle finance contracts and leases to third parties, instead of directly financing vehicle sales or leases, which minimizes the credit risk to which Major Auto is exposed. Major Auto typically receives a finance fee or commission from the third party who provides the financing. In certain limited instances in which Major Auto determines that its credit risk is manageable, estimated by Major Auto to be approximately 5% of its vehicles sales and leases, Major Auto directly finances the purchase or lease of a vehicle. In such instances, Major Auto will bear the credit risk that the customer will default, but will have the right to repossess the vehicle upon default. Major Auto maintains relationships with a wide variety of financing sources, including commercial banks, automobile finance companies, other financial institutions and the Company's subsidiary Major Fleet. Major Fleet purchases less than 10% of Major Auto's leases, and none of Major Auto's finance contracts.

Sales and Marketing

Major Auto believes marketing and advertising are significant to its operations. As is typical in its industry, Major Auto receives a subsidy for a portion of its expenses from the automobile manufacturers with which Major Auto has franchise agreements. The automobile manufacturers also assist Major Auto to develop its own advertising by providing it with market research.

Major Auto's marketing effort is conducted over most forms of media including television, newspaper, direct mail, billboards and the Internet. Major Auto's advertising seeks to promote its image as a reputable dealer offering quality products at affordable prices and with attractive financing options. Each of Major Auto's dealerships periodically offer price discounts or other promotions to attract additional customers. The individual dealerships' promotions are coordinated by Major Auto and, because Major Auto owns and operates several dealerships in the New York City market, it realizes cost savings through volume discounts and other media concessions.

Major Auto's operations have been enhanced by its ability to achieve economies of scale with respect to its marketing and advertising. Nationwide, the average cost of marketing and advertising per new vehicle sold in 1998 was approximately $428. Notwithstanding that advertising costs in the New York metropolitan area are generally higher than the national average, Major Auto's cost of marketing and advertising per vehicle sold have consistently been less than the national average. These lower costs result from the fact that Major Auto: (i) has favorable contracts with four major area daily newspapers; (ii) advertises in lower-cost niche markets (such as local ethnic markets, employee purchase programs and discount buying services); and (iii) utilizes telephonic marketing and electronic marketing via services such as the Internet and Bloomberg.

Relationships with Manufacturers

Each of Major Auto's dealerships operates under a separate franchise or dealer agreement which governs the relationship between the dealership and the relevant manufacturer. In general, each dealer agreement specifies the location of the dealership for the sale of vehicles and for the performance of certain approved services in the specified market area. The designation of such areas, the allocation of such areas and the allocation of new vehicles among dealerships is discretionary with the relevant manufacturer. Dealer agreements do not generally provide a dealer with an exclusive franchise in the designated market area. A dealer agreement generally requires that a dealer meet specified standards regarding showrooms, the facilities and equipment for servicing vehicles, the maintenance of inventories, the maintenance of minimum net working capital, personnel training and other aspects of the dealer's business. The dealer agreement also gives the relevant manufacturer the right to approve the dealer's general manager and any material change in management or ownership of the dealership. The dealer agreement provides the relevant manufacturer with the right to terminate the dealer agreement under certain circumstances, such as : (i) a change in control of the dealership without the consent of the relevant manufacturer; (ii) the impairment of the financial condition or reputation of the dealership; (iii) the death, removal or withdrawal of the dealership's general manager; (iv) the conviction of the dealership or the dealership's general manager of certain crimes; (v) the dealer's failure to adequately operate the dealership or to maintain wholesale financing arrangements; (vi) the bankruptcy or insolvency of the dealership; or (vii) the dealer's or dealership's material breach of other provisions of the dealer agreement. Many of the dealership agreements require the consent of the relevant manufacturer to the dealer's acquisition of additional dealerships. In addition, Major Auto's dealership agreement with General Motors, with respect to its Chevrolet dealership, gives General Motors a right of first refusal to purchase such dealership, which means that if ever Major Auto proposes to sell its Chevrolet dealership, it must first offer General Motors the opportunity to purchase that dealership.

The dealership agreement with General Motors imposes several additional restrictions on the Company. As a consequence of the Major Auto Acquisition, the Company's Chevrolet franchise, and any other General Motors' franchises that the Company may subsequently acquire, could be at risk if: (i) any person or entity acquires more than 20% of the Company's voting stock with the intention of acquiring additional shares or effecting a material change in the Company's business or corporate structure; or (ii) if the Company takes any corporate action that would result: (a) in any person or entity owning more than 20% of the Company's voting stock for a purpose other than passive investment; (b) an extraordinary corporate transaction such as a merger, reorganization, liquidation or transfer of assets; (c) a change in the control of the Company's Board of Directors within a rolling one-year period; or (d) the acquisition of more than 20% of the Company's voting stock by another automobile dealer or such dealer's affiliates. If General Motors determines that any of the actions described in the preceding sentence could have a material or adverse effect on its image or reputation in the General Motors' dealerships or be materially incompatible with General Motors' interests, the Company must either (x) transfer the assets of the General Motors' dealerships to General Motors or a third party acceptable to General Motors for fair market value or (y) demonstrate that the person or entity will not own 20% of the Company's voting stock or that the actions in question will not occur.

In addition, the General Motors dealer agreement requires that the Company comply with General Motors' Network 2000 Channel Strategy ("Project 2000"). Project 2000 includes a plan to eliminate 1,500 General Motors dealerships by the year 2000, primarily through dealership buybacks and approval by General Motors of inter-dealership acquisitions, and encourages dealers to align General Motors divisions' brands as may be requested by General Motors, The dealer agreement will require that the Company bring any General Motors dealership into compliance with the Project 2000 plan within one year of the acquisition. Failure to achieve such compliance may result in termination of the dealer agreement and a buyback of the related dealership assets at book value by General

Motors. The Company believes that Major Auto's Chevrolet dealership currently complies with the Project 2000 guidelines.

The Company has also agreed that its dealerships offering new vehicles manufactured by General Motors will not attempt to sell new vehicles of other manufacturers.

New York law, and many other states' laws, limit manufacturers' control over dealerships. In addition to various other restrictions imposed upon manufacturers, New York law provides that notwithstanding the terms of the dealer agreement with the relevant manufacturer, the manufacturer may not: (i) except in certain limited instances, terminate or refuse to renew a dealership agreement except for due cause and with prior written notice; (ii) attempt to prevent a change in the dealer's capital structure or the means by which the dealer finances dealership operations; or (iii) unreasonably withhold its consent to a dealer's transfer of its interest in the dealership or fail to give notice to the dealer detailing its reasons for not consenting.

Competition

The market for new and used vehicle sales in the New York metropolitan area is one of the most competitive in the nation. In the sale of new vehicles, Major Auto competes with other new automobile dealers that operate in the New York metropolitan area. Some competing dealerships offer some of the same makes as Major Auto's dealerships and other competing dealerships offer other manufacturer's vehicles. Some competing new vehicle dealers are local, single-franchise dealerships, while others are multi-franchise dealership groups. In the sale of used vehicles, Major Auto competes with other used vehicle dealerships and with new vehicle dealerships which also sell used cars that operate in the New York metropolitan area. In addition, Major Auto competes with used car "superstores" that have inventories that are larger and more varied than Major Auto's.

Major Auto believes that the principal competitive factors in vehicle sales are the marketing campaigns conducted by automobile manufacturers, the ability of dealerships to offer a wide selection of popular vehicles, pricing (including manufacturers' rebates and other special offers), the location of dealerships, the quality of customer service, warranties and customer preference for particular makes of vehicles. Major Auto believes that its dealerships are competitive in all of these areas.

In addition, Major Auto, due to the size and number of automobile dealerships it owns and operates, is larger than most of the independent operators with which it competes. Major Auto's size has historically permitted it to attract experienced and professional sales and service personnel and has provided it the resources to compete effectively. However, as the Company enters other markets, it may face competitors that are larger and that have access to greater resources.

Major Auto believes that its principal competitors within the New York metropolitan area are United Auto Group, a publicly traded company, and Potamkin Auto Group, Burn's Auto Group and Auto-Land, each of which is privately held.

Governmental Regulation

Automobile dealers and manufacturers are subject to various Federal and state laws established to protect consumers, including the so-called "Lemon Laws" which require a dealer or manufacturer to replace a new vehicle or accept it for a full refund within a specified period of time, generally one year, after the initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require that certain written disclosures be provided on new vehicles, including mileage and pricing information. In addition, Major Auto's financing activities are subject to certain statutes governing credit reporting and debt collection.

The imported automobiles purchased by Major Auto are subject to United States custom duties and, in the ordinary course of its business, Major Auto may from time to time be subject to claims for duties, penalties, liquidated damages or other charges. Currently, United States customs duties are generally assessed at 2.5% of the customs value of the automobiles imported, as classified pursuant to the Harmonized Tariff Schedule of the United States.

As with automobile dealerships generally, and parts and service operations in particular, Major Auto's business involves the use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, waste motor oil and filters, transmission fluid, antifreeze, freon, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. Accordingly, Major Auto is subject to Federal, state and local environmental laws governing health, environmental quality, and remediation of contamination at facilities it operates or to which it sends hazardous or toxic substances or wastes for treatment, recycling or disposal. Major Auto believes that it is in material compliance with all environmental laws and that such compliance will not have a material adverse effect on its business, financial condition or results of operations.

Leasing Operations

In October 1996, the Company acquired all of the issued and outstanding shares of stock of Major Fleet & Leasing Corp. ("Major Fleet"). Major Fleet has historically provided lease financing solely for motor vehicles.

Major Fleet typically arranges for sale or lease to its customers of new or used vehicles of all makes and models. Major Fleet will purchase the desired vehicle from an automobile dealer and either resell it to its customer for a markup over its cost, or lease the vehicle to the customer and provide the related lease financing. If a customer of Major Fleet wants to purchase or lease a new vehicle that is available from one of Major Auto's dealerships, in almost all cases, Major Fleet will acquire the vehicle from Major Auto and then resell or lease it to its customer. Major Fleet estimates that it acquires approximately 50% of the vehicles it sells and leases from Major Auto.

In most instances, Major Fleet will broker vehicle finance contracts for, or assign its leases to, third parties instead of directly financing vehicle sales or leases. This minimizes the credit risk to which Major Auto is exposed. In these instances, Major Fleet typically receives a finance fee or commission from the third party who provides the financing. In certain instances, Major Fleet directly finances the lease of a vehicle. When Major Fleet provides lease financing, it bears the credit risk that its customers will default in the payment of the lease installments. In order to minimize its risk of loss, Major Fleet carefully evaluates the credit of its lease customers. It also requires that its lease customers have adequate collision and liability insurance on the leased vehicle and that Major Fleet be named as loss payee and additional insured on the customer's collision and liability insurance policies. Major Fleet does not finance the purchase of the vehicles, so if a customer desires purchase financing, the customer will need to obtain financing from a third party; however, as discussed above, Major Fleet will broker financing contracts.

Proposed Acquisitions

The Company and Mr. Bendell are currently negotiating a letter of intent concerning the Company's acquisition of Oyster Bay Nissan. There can be no assurance that the Company and Mr. Bendell will agree on acceptable terms. Based upon preliminary financial and other information in the Company's possession relating to the business and operations of Oyster Bay Nissan, the Company does not believe that such acquisition, if consummated, would have material impact on the financial positions of the Company. However, if the purchase price for such acquisition were to have a significant cash component, the Company would likely be required to raise additional capital, either by incurring debt or issuing equity, to finance the consummation of such acquisition.

In January 1999, Fidelity Holdings and Major Auto entered into an agreement with Universal Ford, Inc. to acquire Universal Kia, a Kia automobile dealership located in Long Island City, New York. The purchase price of

Universal Kia is based on Universal Kia's historical operating results and is expected to aggregated less than $200,000.

Also in January 1999, the Company signed a letter of intent to acquire the 80% of the Long Island, New York based Major of the Five Towns (formerly Nissanland and Kialand), currently doing business as Major Nissan and Major Kia, that is owned by the Company's Chairman and CEO, Bruce Bendell. The purchase price is $1,250,000 subject to receiving a fairness opinion from an independent appraiser. This dealership has three separate showroom locations. Nicholas Guadagno, who is President and a 20% shareholder of Major of the Five Towns, will continue to manage day-to-day operations after the completion of this acquisition.

In February 1999, the Company signed a contract to acquire, for $800,000, subject to certain adjustments, in cash ($300,000) and stock ($500,000), Compass Lincoln-Mercury and Compass Dodge (collectively, "Compass"), both of which are based in Essex County, New Jersey. This acquisition will enable the Company to enter the Northern New Jersey market and thus expand Major Auto's regional presence in the retail automobile sales industry in keeping with one of the Company's key corporate objectives. It is also expected that after the acquisition of Compass, Arthur Picon, currently President of the two dealerships, will remain with the Company. It is expected that, with the more than thirty years experience Mr. Picon has in the area, and with the resources of Major Auto, he will be helpful in expanding its operations. The Company is planning to change the name of these dealerships to Major Lincoln-Mercury and Major Dodge. It will then utilize its "Major World" brand of marketing at these two dealerships.

No assurance can be given that the Company will successfully consummate any or all of the aforementioned potential acquisitions, or, if consummated, that such acquisitions will ultimately prove profitable to the Company.

Technology Division (See "Discontinued Operations.")

The Company has announced its intention to explore the possible divestiture of its Technology Division, by way of sale, merger, consolidation or otherwise and is actively seeking opportunities to do so. The Company believes that each of its non-automotive operations included in the Technology Division is potentially or currently economically viable. Therefore, in an effort to maximize the value of each of these operations to be divested, with the goal being to realize the largest possible benefit from the divestiture, the Company continues to maintain and enhance each such operation. See "Discontinued Operations."

The Company, through Computer Business Sciences, Inc., a Delaware corporation ("Computer Business Sciences" or "CBS"), 786710 Ontario Limited, an Ontario corporation doing business as Info Systems, Inc. ("Info Systems"), C.B.S. Computer Business Sciences Ltd., an Israeli corporation ("Computer Business Sciences (Israel)"), Reynard Service Bureau, Inc., a Florida corporation ("Reynard") and IG2™, Inc., a Delaware corporation ("IG2™"), the five wholly-owned subsidiaries (provided that certain outside investors have warrants to purchase shares of CBS common stock, See "Recent Developments.") comprising its Computer Telephony and Telecommunications operations, currently develops, manufactures, markets, sells and services two product lines. The first product line utilizes "Talkie" technology, which consists of proprietary computer software and hardware that (i) permits end users of the technology to place long-distance international telephone calls at discounted rates and (ii) offers end users a broad range of interactive voice response applications such as voice-mail, automatic receptionist, automated order entry, conference calling and faxing. The second product line, "Business Control Software," is a proprietary computer software system that provides multi-lingual general accounting and business management applications.

The Company is planning to exploit its technological capabilities in telephony by emphasizing high speed, broadband, multimedia transmission over telephone, including voice, data, video conferencing and other areas, in order to enhance the Technology Division's value to potential acquirors. See "Planned Activities."

The Company originally acquired the technology for its telecommunications products (see "Talkie" below) in April 1996 through its acquisition from Dr. Zvi Barak and Sarah Barak (the "Baraks") of all of the issued and outstanding capital stock of Info Systems. A portion of the purchase price for such capital stock consists of twenty monthly installment payments of $15,000 each from the Company to the Baraks. In order to secure such installment payments, the Company has granted a security interest to the Baraks in the capital stock of Info Systems and the other assets purchased by the Company from the Baraks. On December 31, 1998 the Company entered into a definitive agreement with the Baraks regarding payment of all amounts due them. The agreement calls for a series of payments ranging in amounts from $20,000 to $45,000 to be made to the Baraks over the period December 31, 1998 through May 18, 1999. The Company has made all payments as of the date of this Annual Report as scheduled. To secure its obligations the Company has deposited with an escrow agent $50,000 plus 140,000 shares of its common stock. Additionally, in satisfaction of certain adjustments to their employment agreements and out-of-pocket expenses incurred by them, the Company issued to the Baraks 11,960 shares of common stock. The Baraks have the right to sell such shares back to the Company for a price per share of $5.00 at any time up to one year from the date of issuance, March 3, 1999.

Talkie

"Talkie" is the trademark for, and the name used by the Company to describe, the technology relating to the Company's telephonic and interactive voice response software applications. The Company has three products that use Talkie technology. The first product, the "Talkie Power Web Line Machine," is a computer based telephone "switch" that enables small or start-up telephone companies to purchase blocks of international telephone calling time from suppliers such as AT&T and MCI and resell the time in smaller units to callers at discounted rates. The second product is a group of related telephonic and interactive voice response software programs, such as voice-mail, automatic receptionist, automated order entry, conference calling and faxing. The third product, called "Talkie-Globe," is an international call-back, debit card and long-distance reselling system.

The Talkie Power Web Line Machine is a programmable electronic telephone switch based on personal computer technology. It consists of a proprietary software program and hardware components, most of which are available from a number of different sources. The machine currently contains 96 channels, but may be expanded to carry up to 120 channels. Each channel provides 43,200 available minutes of telephone time per 30-day month that may be sold. As is typical of industry utilization of available telephone time, approximately 30%-40% of these available minutes are actually sold. Of the 43,200 available minutes, approximately 10,560 are considered peak time (defined to be the 480 minutes comprising the typical eight-hour work day in the destination country and assuming 22 work days in the typical 30-day month) and the balance are considered off-peak time; however the determination of actual peak minutes in a destination country is based upon demand for calling time, which in turn is based upon such factors as calling patterns and the differences in time zones between the country from which a call is placed and the destination county. Peak minutes are generally able to be sold at higher rates than off-peak minutes.

The Talkie Power Web Line Machine includes an integrated programmable telephone call switching system known as the Talkie Web Smart Switch. The programmability of this switching system allows the machine to handle a variety of international telephone-based services including resale of long-distance telephone time the Company purchases in bulk, international call-back services (described below), telemarketing, Internet access and facsimile transmission.

Historically, the Company, through its subsidiary Computer Business Sciences, sold the Talkie Power Web Line Machines to various service providers (known as "master agents"). A master agent then established a telephone connection between a foreign country and the Talkie Power Web Line Machine, which is located at the Company's offices in Kew Gardens, New York. This connection is typically a dedicated telephone line that runs from the Talkie Power Web Line Machine to certain equipment located in the foreign country that is used to connect the dedicated line to the local telephone lines. The master agent typically leased the dedicated telephone line, which has a specific capacity for simultaneous calls, from MCI Communications Corp. or Sprint Corporation for a fixed monthly fee. Callers in the foreign country place a local call to connect to the dedicated telephone line and are provided a United States dial tone by the Talkie Power Web Line Machine. The caller then dials the number for the desired destination and the call is carried over the dedicated telephone line to the Talkie Power Web Line Machine and then redirected to the desired destination. Because the Talkie Power Web Line Machine's software program is able to process both voice and data, callers may place international telephone calls and send facsimiles to the desired destination and may also connect to the Internet.

The master agent generated revenues by selling the available telephone time generated by the Talkie Power Web Line Machine to callers in the foreign country. There were two elements to the master agent's cost of carrying a call from the foreign country to the desired destination: the cost of the dedicated telephone line from the Talkie Power Web Line Machine to the foreign country (which is typically a fixed monthly cost) and the cost of the call directed from the Talkie Power Web Line Machine to the desired destination (which is based upon United States calling rates). The master agent charged the caller in the foreign country a markup over the cost of the call to the desired destination. The cost to the caller is considerably lower than the alternative of placing the same call through the caller's own local telephone system which, in many cases, is a state-owned monopoly. The experience of the Company's master agents, generally, was a very substantial reduction in per minute call costs. The Company's billing records indicate that the reduction in most cases is a factor of 15, that is, the country-to-country portion of an

international call normally costing $0.75 per minute, costs $0.05 per minute when placed through the Talkie Power Web Line Machine. Once the master agent arranged for a certain monthly volume of calls from a given foreign country, the master agent recouped the cost of the dedicated telephone line to that foreign country and thereafter generated profits.

The Company has decided to acquire from all of its master agents their rights to their respective territories and the Talkie Power Line Web Machines previously sold to them. The Company believes that it can maximize its profitability and, thereby, enhance its value to potential acquirors, by selling for itself the telephone minutes to the existing and additional territories. Negotiations are continuing with each of the Company's master agents to finalize the memoranda of understanding with respect to these acquisitions. See also "Arrangements with Nissko" below.

Arrangements with Nissko

In March 1996, the Company's subsidiary Computer Business Sciences formed a joint venture with Nissko Telecom, L.P. ("Nissko"). The joint venture is a general partnership named Nissko Telecom Associates ("Associates"). Computer Business Sciences owns 45% of the joint venture and Nissko owns 55%. Nissko is a limited partnership the general partner of which is one of the Company's master agents, Nissko Telecom, Ltd. (the "Agent"), and the limited partners of which are four individuals, three of whom, including Yossi Koren, a former director of the Company, are shareholders of the Agent (such three individuals being collectively referred to herein as the "Nissko Principals"). Pursuant to an informal agreement, the Agent has granted to Associates the right to market and sell the available telephone time generated by the Talkie Power Web Line Machines that the Agent purchases as a master agent, in exchange for a 55% Agent's interest in the joint venture through its general partnership interest in Nissko. Through its interest in Associates, Computer Business Sciences realizes 45% of the revenues generated from Associates' sale of such telephone minutes.

Under the terms of its master agent agreement, the Agent (i) paid Computer Business Sciences a deposit of $629,000 at the time the agreement was executed toward the purchase of the 15 machines that the Agent is obligated to purchase and (ii) issued to Computer Business Sciences 45% of its then issued and outstanding common stock. In return, (i) the Company issued to the Nissko Principals, including Yossi Koren, who subsequently became a director of the Company, (a) warrants, exercisable through the date that is 60 days after the effectiveness of any public offering of the Company's securities, to acquire an aggregate of 750,000 shares of the Company's Common Stock at an exercise price of $1.25 per share (the "Class A Warrants") and (b) warrants, exercisable through March 19, 1998 (which have since expired by their terms), to acquire an aggregate of 750,000 shares of the Company's Common Stock at an exercise price of $1.25 per share (the "Class B Warrants") and (ii) Computer Business Sciences agreed to make a $10,000 contribution to the capital of the Agent upon its purchase of each of the first 15 machines. (See "Restructuring of Nissko Arrangements" below.)

To secure certain payments under the master agent agreement with the Agent, Bruce Bendell, the Company's Chairman and Chief Executive Office, and Doron Cohen, the Company's President and Treasurer, have each pledged to the Agent 500,000 shares of the Company's Common Stock. In the event that certain financial covenants are not met or superseded by definitive documentation resulting from the MOU (as hereinafter defined), the Nissko Principals will have the right to foreclose on the pledged Common Stock.

If the proceeds of liquidating the pledged shares are sufficient to cover the deficit, the Nissko Principals will be required to transfer to Mr. Bendell and Mr. Cohen in equal amounts the remaining 55% of the Agent's issued and outstanding common stock. Messrs. Bendell and Cohen have agreed that upon receipt of that stock, they will transfer it to the Company in exchange for reimbursement by the Company for the market value of their shares of the Company's Common Stock foreclosed upon by the Nissko Principals.

Restructuring of Nissko Arrangements

The Company has entered into a Memorandum of Understanding (the "MOU") with the Agent, the Nissko Principals, and with the remaining limited partner of Nissko, Robert L. Rimberg. The MOU provides that: (i) Nissko will transfer to the Agent, and the Agent will assume, all of the assets and liabilities of Nissko; and (ii) Computer Business Sciences will acquire all of the issued and outstanding shares of common stock of the Agent in a tax-free reorganization. Upon execution of the MOU, an aggregate $653,750 deposit that the Nissko Principals and Mr.

Rimberg had previously paid towards the full exercise price of the Class A Warrants was converted to a partial exercise of the Class A Warrants. Upon such conversion, the Company issued an aggregate of 523,000 shares of its Common Stock to the Nissko Principals and Mr. Rimberg, 173,583 of which were issued to Yossi Koren, formerly a director of the Company. Permitted resales will be expressly subject to the voting rights of Bruce Bendell who holds a proxy to vote 500,000 of these shares during the two-year restriction period. Subsequently, the parties agreed to remove the contractual two-year restriction on sales of these shares to make such restriction consistent with current restrictions under the Securities Act of 1933.

The MOU provides that upon execution of definitive documentation containing the terms and conditions outlined in the MOU, (i) each of the Nissko Principals will receive 257,500 shares of the Company's Common Stock and Mr. Rimberg will receive 27,500 shares of the Company's Common Stock, resales of all of which shares will be subject to restrictions on transfer and voting that are identical to those described immediately above, and (ii) each of the Nissko Principals will receive warrants to acquire up to 68,917 shares of the Company's Common Stock and Mr. Rimberg will receive warrants to acquire up to 20,250 shares of the Company's Common Stock, in each case for $1.25 per share. Such warrants represent the unexercised balance of the Class A Warrants remaining after the conversion of the $653,750 partial payment into a partial exercise as described above. Of these warrants representing 227,000 shares of the Company's Common Stock, warrants for 144,714 shares, in the aggregate, were exercised ratably by the Nissko Principals in December 1998, leaving a balance of 82,286 shares represented by such warrants.

Nissko Jewelry Trading, Inc. ("NJT"), a company 33-1/3% owned by Mr. Koren, has entered into agreements for the Agent's benefit with MCI, Sprint and Bell Atlantic (formerly NYNEX). These agreements provide for the purchase by NJT on behalf of the Agent of telephone time or transmission lines. The MOU provides that the Company will indemnify NJT against any liability it may incur under these agreements and will place 200,000 shares of its Common Stock into an escrow account to secure this indemnification obligation.

Upon the effectiveness of the definitive documentation relating to the transactions contemplated by the MOU the Agent's master agent agreement will terminate and the pledge by each of Mr. Bendell and Mr. Cohen of 500,000 shares of the Company's Common Stock, referred to above, will be released.

It is the Company's intention to reacquire the territorial rights and Talkie Power Line Web Machines from its other master agents in exchange for shares of Common Stock at fair value. The Company has reached tentative agreement with each such agent and is presently negotiating definitive memoranda of understanding.

Interactive Voice Response Software Programs

The second product group, interactive voice response software programs, consists of the following applications:

Talkie-Ad: permits callers to browse through pre-recorded messages based on their search criteria, similar to a talking classified ad.

Talkie-Attendant: automated receptionist features, including dial "0" for operator, name directories, call blocking, call screening, music or company messages while on hold, paging, personalized menus, call queuing and conversation recording.

Talkie-Audio: delivers pre-recorded information in response to telephone inquiries and can serve as a talking bulletin board.

Talkie-Conference: permits the user to schedule a conference call and then, when the conference call is to occur, either calls the participants or permits them to dial in, and provides the chairperson with various options during the call.

Talkie-Dial: places a telephone call, using a user-supplied list of telephone numbers and delivers voice information with the capability of asking questions, accepting answers and updating the system to reflect the answers.

Talkie-Fax: permits the user to program a facsimile into the system and transmit it to a user-supplied list of numbers and permits users to transmit to callers upon their request written information programmed into the system such as directions, product information, price lists or news releases.

Talkie-Form: permits the user to set up a questionnaire and collect answers to pre-recorded questions.

Talkie-Mail: permits the user to record, send, receive and retrieve voice messages from personal mailboxes.

Talkie-Query: responds to callers' inquiries using information stored in the system database.

Talkie-Trans: accepts orders, issues orders (including delivery instructions) and faxes order confirmations.

Users of the Talkie interactive voice response system can also customize the foregoing applications to create new applications using Talkie-Gen, which is an application generator that uses a simple programming language.

In addition to the applications listed above, users may also purchase any of the following off-the-shelf applications:

Talkie-Dating: permits the user to supply a dating service that will permit the user's customers to place and browse through personal ads, register for service and record and listen to messages.

Talkie-Follow-Me: permits the user to supply a telephone tracking service that enables the user's customers to obtain a single telephone number that will continually forward incoming calls to a user-defined series of telephone numbers (such as work, cellular, home, pager and voice-mail).

Talkie-Wake-Up/Reminder: permits the user to supply a wake-up or reminder service that will call a user supplied number with a user-supplied message at a specified time.

All of the Talkie interactive voice response applications operate in up to nine languages.

Info Systems also provides customers with industry-specific and customized applications of its interactive voice response technology. For example, Info Systems has developed a product called Talkie AutoCom for use by automobile dealers. See "Automotive Sales Division-Operating Strategy."

The Talkie interactive voice response software package is sold by the Company through Info Systems.

Talkie-Globe, the trademark for, and the name used by the Company to describe, its third telecommunications product, is a software-based integrated call-back, debit-card and long-distance reselling system and includes all of the Talkie interactive voice response software programs. Typically, international callers based in countries where the telephone system is a state-owned monopoly must pay high per-minute rates fixed by the state-owned company. One method of securing a lower rate is the "call-back" system offered by Info Systems' Talkie-Globe. Using Talkie-Globe, the foreign caller first places a telephone call from the foreign country to the United States or Canadian telephone number where the Talkie-Globe system is located and disconnects without the call being connected so that no charge is assessed for the call. Talkie-Globe recognizes the telephone number from which the foreign call was placed and then places a call to that telephone number from the location in the United States or Canada where the Talkie-Globe system is located to the foreign caller and provides the foreign caller with a dial tone. The foreign caller then places a telephone call through the United States or Canada to the desired destination. The foreign caller thus pays for two calls: (i) the call back from the Talkie-Globe system located in the United States or Canada to the caller in the foreign market and (ii) the call that the caller places through the United States or Canada to the desired destination. The sum of the costs of the two calls placed from the Talkie-Globe system located in the United States or Canada will be lower than the cost of a single call placed directly from the applicable foreign market to the desired destination. The Talkie-Globe system also has a debit card feature, which permits a caller to purchase a stated value of calling time, and debits that value as the caller uses the prepaid calling time.

Talkie-Globe is sold by the Company through Info Systems.

Marketing and Sales

Historically, the Company's strategy with respect to the Talkie Power Web Line Machine has been threefold. First, it sold additional machines through its existing master agents as they expanded their businesses by providing telephone service to additional foreign markets. Second, as demand for the machines increased, it intended to add additional master agents and/or replace any existing master agents who were not complying with their master agent agreements and to enter into strategic partnerships with such new and replacement master agents that would permit the Company to share in the revenue generated by the master agents' sale of telephone time. Third, it intended continually to adapt advancing computer and telecommunications technology to improve and customize the performance of the machines. Currently, the Company is in the process of acquiring the territorial rights and equipment from its master agents and intends to operate its Talkie Power Web Line Machines on its own behalf in preparation for these activities to be divested. The Company anticipates consummating all such arrangements in the second quarter of 1999.

The Company installs, maintains and services all Talkie Power Web Line Machines at the Company's offices in Kew Gardens, New York, where the machines are housed. Historically, for these services, the Company received both a fixed fee and a volume-based fee. To date, billing arrangements have been informal, and the cost to each master agent has been calculated by determining the aggregate maintenance and service costs for all the machines, adding a percentage markup and charging each master agent its ratable portion based upon the number of machines it has purchased. The Company also customized the performance of the machines for the respective master agents and for use in particular countries, for which it has received a fee that is negotiated by the Company and the applicable master agent based upon the complexity of the customization. As noted above, all master agents have been required by contract with the Company to locate their purchased Talkie Power Web Line Machines at the Company's principal office and to have all required installation, service and maintenance performed by the Company. In addition to the services it provides with respect to the Talkie Power Web Line Machines, the Company also has provided services for the various other Talkie products and for the Business Control Software, if requested by the users.

The Company typically sells its interactive voice response software programs to entrepreneurs who wish to operate a telephone-based service business with low overhead and fixed costs. The typical interactive voice response software package requires only a personal computer and voice card for use and costs $1,295. Each of the off-the-shelf applications costs an additional $795. The Company intends to maintain and enhance this facet of its business in preparation for its planned divestiture. As such, its plans include a focus of its efforts with respect to its Talkie interactive voice response software programs on the market for industry-specific and customized applications in which it generally realizes higher profit margins in order to maximize its value to potential acquirors. As the Company targets a given industry, it expects to hire sales personnel familiar with that industry and to attend trade shows to market its product. In addition, the Company intends to expand sales of its interactive voice response system into Europe and South America.

The Company typically sells four to five of its Talkie-Globe systems per month to entrepreneurs who wish to provide a telephone business with low overhead and fixed costs and to small foreign telephone companies. Users of Talkie-Globe purchase international calling time from long-distance telephone companies such as MCI Communications Corp. and resell such time at a mark-up. The typical Talkie-Globe system consists of three personal computers, proprietary software and a voice card and sells for approximately $25,000.

The Company realized gross revenues of $844,000 during 1997 and $1,089,000 during 1998 from the sale of its Talkie interactive voice response software programs and of Talkie-Globe (excluding intercompany sales). The Company's gross profit margin on sales of its Talkie products, including interactive voice response software programs was approximately 28% for 1997 and approximately 35% for 1998. The results of operations for information systems has been included with discontinued operations in the Company's consolidated financial statements.

The Company advertises its Talkie interactive voice response software programs and Talkie-Globe in telephone and telecommunications industry trade publications. In addition, Info Systems attends telephone and telecommunications industry trade shows, which has resulted in reviews of these products in trade publications.

The Company is not currently allocating resources to market its Business Control Software, but performs software service contracts and provides annual program updates to the program's users.

Plastics and Utility Products Operations

The Company, through its subsidiary Premo-Plast, Inc. ("Premo-Plast"), is currently: (i) prototyping and tooling for a line of spa and bath fixtures for use in whirlpool baths, spas, tubs and swimming pools and (ii) seeking ways to exploit its proprietary armored conduit system for use by utility companies, with the goal for both operations being to generate the highest possible returns on their planned divestiture.

Spa Fixtures

Premo-Plast has been engaged in research and development related to a line of fixtures to be placed through the walls of water containers such as spa tubs. To date, the Company has focused its research on fixtures such as the jets used to introduce water mixed with air bubbles into a whirlpool bath, spa or tub and has designed and developed prototypes of such fixtures and has began tooling for their production.

The construction of a whirlpool bath, spa or tub is typically a large thin-walled shell (most often fiberglass coated plastic), through which protrude a number of fixtures such as air and water jets. Inserting these fixtures requires two workers. First, the "inside" worker drills a pilot hole where the fixture is to be inserted. Then, the "outside" worker drills a much larger hole to clear the mounting thread on the fixture, and at the same time smooths an area on the rough outside wall of the spa around the hole in order to allow a tight seal to the washer that will surround the hole when the fixture is installed. Next, the inside worker places a sealing washer on the shaft of the fixture and inserts the shaft through the drilled hole. The outside worker places a second washer on the outside end of the fixture and applies silicone sealant (or, in some cases, applies silicone sealant without a second washer), and adds a retaining nut to secure the assembly. The inside worker must steady the fixture from the inside of the spa, while the outside worker tightens the nut from the outside. The degree of tightness is critical, as too much tightening will squeeze out the silicone sealant, and too little will result in a weak seal. Either condition will cause a leak. Once the nut is tightened, the fixture must set in place, undisturbed, for several hours to permit the silicone to harden and form a water-tight seal.

The Company has acquired the rights to a proprietary plumbing fixture installation method and has designed and developed a line of fixtures that enable installation in a whirlpool bath, spa or tub in significantly less time than is normally required to install such fixtures. One person, working from inside the whirlpool bath, spa or tub, drills the pilot hole and final-size hole. Next, a rubber grommet is placed in the hole. A grommet resembles a small donut with flanges around the inside and outside; the flanges on the grommet are placed into contact with the drilled hole. Next, the worker presses the fixture into the grommeted hole, which can be done from either the inside or the outside of the whirlpool bath, spa or tub. The barrel of the fixture expands the sides of the grommet against the sides of the hole, sealing the hole (by contrast to the traditional fixture, the seal takes place at the sides, not the front and back, so no sealant is required). The barrel is ribbed to prevent the fixture from being pushed back inside the whirlpool bath, spa or tub. Because there are relatively few steps involved in the Company's installation method, there is less risk of error. In addition, because no silicone sealant is used, the fixture does not need to set in place, which permits immediate use and minimizes the risk of leaks.

The Company acquired the technology for the proprietary fixture installation method through its acquisition from Mr. John Pinciaro of all of his right, title and interest therein and two United States patent applications (which have been subsequently granted) related thereto. It is expected that the Company and Mr. Pinciaro will participate jointly in exploitation of the fixture installation method. In October 1997, the Company formed a new subsidiary,

Maxflo, Inc., ("Maxflo") whose shares are owned 80% by the Company's existing subsidiary Premo-Plast and 20% by Mr. Pinciaro.

Status of Development of Spa Fixtures

Since its acquisition of the technology relating to the fixture installation method, the Company has further developed that technology and has designed and produced working prototypes of the various fixtures for use in connection with such method. The Company has completed basic testing on the prototype fixtures and installation method. In addition, the Company has finalized a limited number of components and beta testing has been completed. Production tooling has begun and, given the availability of funding, it is anticipated that commercial sales of Maxflo's spa and bath fixtures could commence by the third quarter of 1999.

Company's Strategy with respect to Spa and Bath Fixture Technology

The Company, based on its own research, believes that approximately 250,000 whirlpool baths and spas and approximately 600,000 tubs are sold annually. Management of Premo-Plast estimates that each whirlpool bath requires approximately 35-45 fixtures and that each tub requires approximately 4-6 fixtures.

The Company's strategy with respect to the fixture technology is to establish its proprietary installation method and its fixtures as the industry standard for whirlpool baths, spas and tubs. The Company has a threefold plan to implement this strategy upon its commencement of commercial production of the fixtures. First, the Company intends to expand its workforce by hiring employees, most of whom have already been identified and approached by the Company, experienced in the areas of design, production and marketing.

Second, the Company intends initially to sell its fixtures and license the right to use its installation method to several designated regional manufacturers and producers of whirlpool baths, spas and tubs. All of these manufacturers and producers were consulted by John Pinciaro, from whom the Company acquired the rights to the proprietary fixture installation method and presently an employee of Premo-Plast, prior to and during the period of development of such method. All of these manufacturers and producers expressed in writing their interest in the installation method and a desire to utilize that method and the Company's fixtures once commercially available, although none are required to do so. Among these producers is ThermoSpas, Inc., a company wholly-owned and operated by Mr. Pinciaro.

Third, the Company intends to publicize its installation method and fixtures generally to the whirlpool bath, spa and tub industry and to attend major trade shows.

Armored Conduit

In November 1995, shortly after its formation, the Company acquired from Progressive Polymerics, Inc. two United States patents and a Canadian patent application covering an armored conduit product. The Company is presently involved in litigation relating to the purchase price for such patents and patent application. See "Legal Proceedings." The primary application for the armored conduit is protection for underground electrical distribution lines. In many major cities electric utility companies deliver service via lines that are run through underground conduits. The underground conduit method of distribution is becoming increasingly common in other cities as the preferred method for delivering electric service to newly constructed subdivisions, replacing above-ground lines mounted on wood or metal poles.

Originally, underground conduit was made from hollow creosoted wood or transite pipe made from a mixture of asbestos and concrete. Currently, conduit is typically made from either (i) PVC duct encased in concrete, (ii) cement or concrete tubing or (iii) fiberglass tubing. Each of these types of conduit has distinct disadvantages. PVC duct becomes brittle and inflexible in cold weather, and melts and bonds to the electric wire if there is excess heat from an overload condition. Cement or concrete cracks easily during transportation and installation as a result of above-ground vibrations and stresses, and, unless installed at the proper depth, if there is a problem with a portion of a conduit system (whether PVC duct, cement, concrete or fiberglass) once installed, the entire system must be removed and replaced.

The product covered by the Company's armored conduit patents is assembled underground from prefabricated pieces that are typically two to four feet in length. Each piece consists of a pre-formed plastic shell that is filled with pourable cement. Each pre-formed shell has a rectangular cross-section, with a linear ribbed exterior and tubular interior. Each end of the pre-formed shell has an extension that can be coupled to the next section in end-to-end fashion.

Potentially, the design of the armored conduit offers several advantages over other types of conduit. First, because the armored conduit system is assembled from pre-fabricated pieces, if there is a problem with a single piece, only that piece, rather than the entire conduit system, needs to be replaced. The problem piece will be replaced with a replacement piece that has a top and bottom half. The bottom half of the replacement piece will first be put in place and coupled to the pieces on either side. The wires will then be placed in the bottom half of the interior tube. The top half of the replacement piece will then cover the wires and be coupled to the pieces on either side. Second, the linear ribs on the exterior of the pre-formed shells increase the structural strength of the shells and permit them to be interlocked when stacked for storage or shipment, thereby reducing the risk of damage. Third, the outer plastic shell of the armored conduit system protects it from water, chemicals and other elements to which underground conduit systems are exposed. As a result of all of these advantages, the armored conduit system can be expected to be more durable than existing types of conduit.

The Company has been engaged in limited research and development activities relating to the armored conduit, and expects, given the availability of funding, to continue these activities in order to enhance its value to potential acquirors.

Research and Development

The Company's wholly-owned subsidiary Computer Business Sciences (Israel) engages in research and development (i) to improve its existing telecommunications software, and to adapt the software to changing personal computer environments, (ii) to expand the software to new uses and (iii) to develop new software, products and applications. Computer Business Sciences (Israel) is headed by Dr. Zvi Barak, who was responsible for the development of the Talkie technology and related Talkie products and of the business control software. The Company spent approximately $207,000 and $300,000 on research and development in 1997 and 1998, respectively, with respect to such division. Research and development with respect to the armored conduit technology and the spa and bath fixture technology is conducted by the Company through its wholly-owned subsidiary Premo-Plast. The Company spent approximately $33,750 and $200,000 respectively, in 1997 and 1998 on research and development with respect to such division. Such division currently has no customers.

Intellectual Property

The Company has registered the name "Talkie" as a trade-mark in Canada. The Company has filed applications with the United States Patent and Trademark Office to register the names "Talkie" and "Talkie-Globe" and "BCS Software" as trademarks in the United States. As an additional method of protecting its proprietary technology, the Company requires that all of the Talkie Power Web Line Machines that it sells remain at the Company's offices in Kew Gardens, New York and that all installation, service and maintenance of the machines be performed solely by the Company. The Company also relies on trade secret protection, confidentiality agreements and other laws to protect its technology, but believes that these rights may not necessarily prevent third parties from developing or using similar or related technology to compete against the Computer Telephony and Telecommunications division's products.

The Company owns two United States patents, issued in June 1993 and May 1994, respectively, relating to the armored conduit technology and also owns a Canadian patent application relating to such technology. In addition, the Company has filed two applications for a United States patent relating to the spa and bath fixtures and related installation method for which it received a patent. The Company has also filed two applications relating to the spa and bath fixtures and related installation method under the Patent Cooperation Treaty designating Australia, Canada, China, Japan and the European Patent Office (up to 18 countries) as recipient countries. Under such treaty, the Company will have the option to individually file separate applications in the designated countries at an appropriate future date. In addition, the Company relies on confidentiality agreements and other laws to protect its technology. The Company believes that it may be possible for third parties to develop technology that provides the

same features as the Company's plastic products without infringing the Company's rights or making use of its proprietary technology.

Competition

Although the Company has many competitors, many of which enjoy greater resources than it, the Company believes its Talkie Power Web Line Machine has certain technological features providing it with advantages over its competitors' products and services. While other companies manufacture and sell traditional telephone switching equipment, such equipment is expensive to purchase and maintain as compared to the Talkie Power Web Line Machine. Moreover, the Company believes that the proprietary nature of the Talkie Power Web Line Machine's software program provides the Company a significant head start over a potential competitor who wishes to develop a competing product. There can be no assurance that the Company will be able to maintain such technological advantages, if any, in the future.

The Company will compete, after the acquisition of the territorial rights and equipment of its master agents, with other providers of international telephone service. The market for international telephone service is highly competitive. In additional to the major service providers such as AT&T, MCI and Sprint, there are numerous smaller service providers as well as resellers, who do not own and operate equipment but purchase telephone time from service providers at a discount and resell that time to the public. The Company believes that a primary competitive factor in the industry is pricing. The Company believes that the use of the Talkie Power Web Line Machine, which is less costly to purchase and maintain than traditional switching equipment, will enable it to offer telephone calling time at lower rates than competitors whose rate structure must account for the higher cost of such traditional switching equipment. As a result of deregulation in foreign countries, which could result in competition from other service providers with large, established customer bases and close ties to governmental authorities in their home countries and decreased prices for direct-dialed international calls, the Company may face increasing competition which could adversely affect the Company's gross margins on phone services sold for its own account and, thereby, reduce the Company's income.

The Company's Talkie interactive voice response software programs compete with products sold by approximately two dozen entities in North America, including AT&T, Northern Telecom and others. However, in the more limited market for industry-specific and custom interactive voice response applications, the Company knows of only one direct competitor. The Company's Talkie-Globe system competes with telephone callback products sold by approximately six other entities.

As a result of its reliance on the Company's proprietary software rather than hardware components to operate, the purchase price and maintenance costs of the Company's Talkie interactive voice response software programs and Talkie-Globe are believed to be generally lower than those of competing products. In addition, because software is easier to alter than hardware components, the Company is able to customize its products or modify its products to incorporate changing technology more quickly and at a lower cost than its competitors.

Notwithstanding the Company's competitive advantages however, many of the producers of products competitive with the Company's, and companies wishing to enter the market in which the Company's products compete, have well established reputations, customer relationships and marketing and distribution networks. Many also have greater financial, technical, manufacturing, management and research and development resources than those of the Company, may be more successful than the Company in manufacturing and marketing their products and may be able to use their greater resources and to leverage existing relationships to obtain a competitive advantage over the Company.

If the Company's armored conduit is developed into a commercially viable product, it will compete with PVC duct encased in concrete, cement or concrete tubing and metal tubing, all of which are established methods. The Company's spa and bath fixtures will compete with existing types of such fixture. Because the Company's fixtures and installation method permit single-person assembly rather than the two-person assembly required by existing products and installation methods, the Company believes that use of its fixtures will result in significantly reduced assembly time and costs.

Many of the producers and distributors of products competitive with the Company's spa and bath fixtures and armored conduit may have well established reputations, customer relationships and marketing and distribution networks. They may also have greater financial, technical, manufacturing, management and research and development resources than those of the Company. While the Company believes that its spa and bath fixtures and installation method and its armored conduit will have significant advantages over existing products, the Company's competitors may be more successful than the Company in manufacturing and marketing their products and may be able to leverage existing relationships to obtain a competitive advantage over the Company.

Planned Activities

In February 1999, CBS launched IG2™ (Internet Generation Two), a multimedia network platform that is expected to provide high speed Internet access, e-Commerce capabilities, local and long distance service, television quality video conferencing and television programming through existing telephone wires already installed in the customer's home and/or small business. IG2™ is believed by the Company to be the next generation platform in Internet and communications delivery. The Company expects to price IG2™ services at a substantial discount over current rates charged for telephone, cable and Internet access combined. IG2™, Inc., a subsidiary of CBS, was designated to deploy IG2™ services.

The initial trial rollout, Phase I, presently projected for the third quarter of 1999, targets twenty-two cities and expands to sixty-three cities by the end of that year. Phase I, using an asynchronous transport mode ("ATM") technology, is expected to offer guaranteed quality of service, carrier class-level voice over internet ("Voice/IP") long distance service at aggressively competitive rates. Phases II and III of this enterprise, utilizing state-of-the-art digital subscriber line ("DSL") equipment, are expected to provide a wide array of Voice/IP services including local dial tone, call-back, dial-around, traditional long distance and high speed internet access. Additionally, because this technology permits broadband service over existing copper wires, the Company's Technology Division is positioning itself to offer, at very competitive prices, additional services such as virtual private networks ("VPN"), movies on demand and pay TV, home shopping, banking, telemarketing, tele-medicine, video conferencing and distance learning, to enhance its value in the event of divestiture.

Also in February 1999, CBS received approval to operate as a facilities-based Carrier of Telecommunications Services and Intrastate Interexchange Services in New York, Florida and California. This will enable CBS through IG2™ to provide XDSL services in these states.

No assurance can be given that the Company will be successful in developing the foregoing products or services, or that if successfully developed, such products or services will result in revenues to the Company or be attractive to potential acquirors of this operation.

Recent Developments

In January 1999 the Company and CBS entered into a Securities Purchase Agreement with certain purchasers named therein (the "Purchasers"), pursuant to which the Company and CBS agreed to sell up to 2,750 Units (the "Units"), each Unit consisting of (a) in the first tranche, (i) a 12% Convertible Debenture of the Company in the principal amount of One Thousand Dollars ($1,000) of the Company (the "Debentures"), convertible on certain terms and conditions into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), (ii) 36.3636 shares of Common Stock, (iii) warrants (the "Warrants") to acquire 83.3333 shares of Common Stock and (iv) warrants (the "CBS Warrants") to acquire 25.4545 shares of common stock, par value $0.01 per share, of CBS (the "CBS Shares"), and (b), in the second tranche, (i) a Debenture in the principal amount of One Thousand Five Hundred Sixty-Three and 64/100 Dollars ($1,563.64) and (ii) Warrants to acquire 130.3030 shares of Common Stock and (c) in the third tranche, (i) Debentures in an aggregate principal amount of One Thousand Five Hundred Sixty-Three and 64/100 Dollars ($1,563.64) and (ii) Warrants to purchase 130.3030 shares of Common Stock. The shares of Common Stock issuable upon conversion of or otherwise pursuant to the Debentures are referred to herein as the "Conversion Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares." The Company closed on the first tranche of $2.75 million and issued to the Purchasers, in the aggregate, Debentures in the face amount of $2.75 million, 100,000 shares of Common Stock, Warrants to acquire 229,167 shares of Common Stock and CBS Warrants to acquire 70,000 CBS Shares. Consummation of the second and third tranches is conditioned upon,

among other things, achievement by the Company and CBS of certain mutually agreeable milestones and under certain conditions, approval by the shareholders of Fidelity.The Debentures are convertible into Common Stock of the Company at any time after the date of issue (subject to certain volume limitations). Upon conversion, holders will be entitled to receive a number of shares of Common Stock determined by dividing the outstanding principal amount of the Debentures by a conversion price equal to the lesser of 90% of the average closing bid prices for the Common Stock during a defined period prior to conversion, and $4.20 (but in no event less than $3.00, and subject to adjustment upon the occurrence of certain dilutive events). The Warrants are exercisable for shares of Common Stock of the Company. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $4.20 per share. The Warrants will expire on January 25, 2004. The CBS Warrants are exercisable for shares of Common Stock of CBS. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $0.001 per share. The CBS Warrants will expire on January 25, 2004.In connection with this transaction, the Company also entered into a Registration Rights Agreement with the Purchasers under which the Company is required to file a registration statement on Form S-3 by March 11, 1999, subject to certain specified exceptions, which have been met, covering resales of the Conversion Shares and the Warrant Shares (the "Resale Registration Statement"). Under the Registration Rights Agreement, the Company may be required to make certain payments to holders of the Debentures as partial damages if, among other things, the Resale Registration Statement has not been declared effective by the Securities and Exchange Commission on or before July 9, 1999, subject to certain specified exceptions. In connection with the placement of the Debentures, the Company paid to Zanett Securities Corporation, the placement agent for the transaction (the "Placement Agent") a fee and non-accountable expense allowance of 6.9%, and the Company also issued to the Placement Agent, and its assignees, 50,000 shares of the Company's Common Stock, 30,000 shares of CBS Common Stock and warrants to purchase an aggregate of 114,583 shares of Common Stock at an exercise price equal to $4.20 per share. See "Management's Discussion and Analysis of Financial Condition."

Item 2. Description of Property.

Major Auto owns an approximately 12,000 square foot facility consisting of office and automobile showroom space in Long Island City, New York, as well as an approximately 40,000 square feet service facility in Long Island City, New York, both of which it acquired in the Major Auto Acquisition. Apart from the foregoing, neither the Company nor any of its subsidiaries owns any real estate or plants. All other operations of the Company and its subsidiaries are conducted from locations leased from unaffiliated third parties.

The Company leases approximately 6,800 square feet on two floors in Kew Gardens, New York. The lease for the floor that the Company currently uses for executive offices and to house the Talkie Power Web Line Machines consists of approximately 2,800 square feet and expires on March 31, 2001, but the Company has the option to extend the lease for one additional five-year term. The current annual rent under such lease is $69,448.50, but will be increased by 3.5% on a compounded and cumulative basis each lease year. If the Company elects to extend such lease, the base rent for the extension period will be the greater of the base rent on March 31, 2001 at the termination of the original lease period or the then fair market rental of the premises.

The lease for the other floor in Kew Gardens, New York consists of approximately 4,000 square feet and is occupied pursuant to the terms of a sublease between Major Fleet, as lessee, and an unrelated third party, as lessor. The lease expires on January 14, 2000 and contains no renewal provisions. The current annual rent under such lease is $73,992. Pursuant to an informal arrangement, (i) Computer Business Sciences pays such rent on behalf of Major Fleet, (ii) a portion of the leased space is used by Computer Business Sciences for additional office space and (iii) a portion of the leased space is used by Associates to operate the customer service division of its reselling operations.

The Company believes that its current facilities are suitable and adequate for its current needs, but could require additional facilities to accommodate any future expansion.

Computer Business Sciences (Israel) leases from an unrelated third party approximately 1,517 square feet of office space in Raanana, Israel. The lease expires on September 1, 1999, but Computer Business Sciences (Israel) has an option to renew the lease for an additional two-year period. The current annual rent under such lease is $22,620 and will increase by 6% on July 1, 1999.

Info Systems leases from an unrelated third party approximately 1,415 square feet of office space in Downsview, North York, Canada. The lease expired on October 31, 1998, but Info Systems renewed the lease for an additional two-year period. The current annual rent under such lease is $19,810 and is not subject to escalation.

Major Subaru subleases from an unrelated third party approximately 2,500 square feet of office and automobile showroom space in Woodside, New York. This lease expired on January 31, 1998 but is continuing on a month-to-month basis. The current annual rent under such lease is $114,000.

The Company has an interest in the following leases, under which Major Auto presently pays aggregate annual rental payments of $423,000:

Major Chrysler, Plymouth, Jeep Eagle leases from an unrelated third party approximately 17,400 square feet of office and automobile showroom and storage space in Long Island City, New York for an annual rental of $90,000. This lease expires on October 31, 2001, but Major Chrysler, Plymouth, Jeep Eagle has the option to extend the lease for one additional ten-year term.

Major Auto leases from an unrelated third party approximately 2,000 square feet of lot space in Astoria, New York adjacent to the main Major Dodge showroom. This lease expired on June 30, 1997 at which time the annual rent was $33,000. Major Auto is currently renegotiating such lease and remains in possession of the premises under an oral month-to-month lease. Major Auto does not believe that this property is material to the operation of Major Auto.

Major Chevrolet leases from an unrelated third party, for $300,000 annually, two adjacent automobile dealership facilities in Long Island City, New York, comprising approximately 250,000 square feet. This lease expires on February 1, 2004, but Major Chevrolet has the option to extend the lease for up to three additional five-year terms.

Item 3. Legal Proceedings.

On November 22, 1996, the Company and its wholly owned subsidiaries Computer Business Sciences and Info Systems filed an action in the New York Supreme Court, Queens County against Michael Marom ("Marom") and M.M. Telecom, Corp. ("MMT"). The Company and its subsidiaries are seeking damages of $5,000,000 for breach of contract, libel, slander, disparagement, violation of copyright laws, fraud and misrepresentation.

On February 4, 1997, the defendants filed a counterclaim against the Company and its subsidiaries seeking damages of $50,000,000 of compensatory and punitive damages for breach of contract and violation of the Lanham Act. The defendants allege in their counterclaim that the Company, Computer Business Sciences and Info Systems misappropriated and altered software developed by Marom in order to prevent competition with the Company's Talkie-Globe. Both parties to the litigation have filed responses to the counterclaims.

The Company, Computer Business Sciences and Info Systems have filed a Motion to Dismiss Marom and MMT's counterclaims for failure to state a cause of action. While there was minimum opposition, Marom and MMT did cross move to amend their answer and counterclaims to include thirteen causes of action. The Company has submitted opposition to this amendment attempting to show that the proposed amended counterclaims have no merit. All papers in the action have been recently submitted and the Company is awaiting a decision from the Court. The Company and its litigation counsel believe that the Company and its wholly owned subsidiaries have a good basis to oppose Marom's and MMT's counterclaims. The Company has received notice of a claim by Mr. Daniel Tepper, of Los Angeles, California. Mr. Tepper had contacted the Company claiming to have acquired, through foreclosure of a security interest, 12,000 shares of its Common Stock originally issued to Progressive Polymerics International, Inc. ("PPYM") in a private placement. He requested that the Company issue certificates representing the shares in question that did not bear a legend restricting their transfer, on the basis that the shares had been held by his predecessor in interest for a length of time sufficient to allow their unrestricted resale in accordance with Rule 144 promulgated under the Securities Act. The Company was advised by

counsel that it should not issue the unlegended share certificates requested by Mr. Tepper unless he showed that he acquired the relevant shares in a transaction allowing him to take advantage of his predecessor's holding period for the shares in question.

The Company's legal counsel contacted Mr. Tepper in November 1997, seeking to verify details of the claimed foreclosure in order to verify Mr. Tepper's eligibility to take advantage of his predecessor's holding period for the shares in question. Mr. Tepper never responded to that inquiry. Instead, on December 23, 1997, Mr. Tepper, acting through counsel, asserted a number of claims against the Company, including claims arising out of transactions dating back to the 1995 acquisition by the Company of the armored conduit patents. See "Description of Business-Plastics and Utility Products Operations."

The Company has been advised by counsel that Mr. Tepper's claims are without merit. However, one of the allegations made by Mr. Tepper prompted an inquiry by the Company into one of the circumstances of that transaction.

On October 15, 1996 the Company, Progressive Polymerics, Inc. ("Progressive") and PPYM signed a First Amendment to the Patent Sale and Purchase Agreement (the "First Amendment") between them dated November 14, 1995. The First Amendment, which was dated September 30, 1996, settled a claim by the Company against Progressive and PPYM related to undisclosed additional development costs related to the armored conduit patents. The Company commenced litigation against Progressive and PPYM in which it sought a reduction in the purchase price for the armored conduit patents. The First Amendment changed the purchase price from $500,000 in cash to the sum of (i) $100,000 in cash, (ii) 160,000 shares of the Company's Common Stock and (iii) warrants to purchase an additional 160,000 shares of the Company's Common Stock.

The Company was advised by the President of PPYM, Terrence Davis, prior to signing the First Amendment, that the First Amendment had been approved by a majority of the shareholders of PPYM. However, Mr. Tepper's claim included an assertion that the version of the First Amendment that PPYM's shareholders approved failed to include a provision, added just prior to signing, giving the Company the right to repurchase 80,000 of the 160,000 shares issued to PPYM.

Upon receipt of Mr. Tepper's claim, the Company contacted Mr. Davis, who confirmed on January 5, 1998 that the version of the First Amendment approved by PPYM's shareholders did not include the repurchase provision. The reason given by Mr. Davis was that, as President of PPYM, he believed he had the authority to agree to the repurchase provision on PPYM's behalf without shareholder approval.

The Company has accordingly revived its legal action that was pending against PPYM and Progressive at the time of the First Amendment, in which it sought modification of the purchase price due pursuant to the Patent Sale and Purchase Agreement with PPYM.

The Company, assuming it is successful in the prosecution of this litigation, will then seek to recover damages from PPYM and Progressive related to the misrepresentations concerning additional development expenditures required in connection with the patents covered by the Patent Sale and Purchase Agreement. These misrepresentations were the subject of the legal action referred to in the preceding paragraph.

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

None.

PART II

Item 5. Market For Common Equity and Related Stockholder Matters.

Market Information

On October 7, 1998, the Company's Common Stock was approved for trading on the NASDAQ SmallCap Market System. From the time of the listing through April 8, 1999, the high bid price was $18.50 and the low bid price was $3.375; quarter-end high and low bids were (as reported by Nasdaq Trading & Market Services) which quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions:

Quarter Ended	High Bid	Low Bid
March 31, 1999	$18.50	$6.125
December 31, 1998	$6.5625	$3.375
September 30, 1998	$5.8125	$3.625
June 30, 1998	$4.875	$4.125
March 31, 1998	$4.625	$4.0625
December 31, 1997	$5.375	$4.00
September 30, 1997	$4.375	$3.50
June 30, 1997	$5.50	$4.00

Shareholders

As of April 8, 1999 there were 739 holders of record of the Company's Common Stock.

Dividends

The Company has never declared dividends on any class of its securities and has no present intention to declare any dividends on any class of its securities in the future.

Recent Sales of Unregistered Securities

The securities described below of the Company were sold by the Company during 1998 without being registered under the Securities Act. All such sales made in reliance on Section 4(2) of the Securities Act were, to the best of the Company's knowledge, made to investors that, either alone or together with a representative that assisted such investor in connection with the applicable investment, had such sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks connected with the applicable investment.

1. In April 1998, the Company issued $600,000 principal amount of its 10% Convertible Subordinated Debentures due 1999 (the "Debentures") to one institutional investor and two accredited investors, for aggregate proceeds to the Company of $600,000.

2. In April 1998 the Company issued 350,000 shares to Omni-Teleservices, Inc. at a per share price of $3.28 in consideration for the acquisition of telephony territories and equipment.

3. In June 1998 the Company issued 10,500 shares to Filas Group, Inc. at a per share price of $3.15 in consideration for services rendered.

4. In July 1998 the Company issued 17,000 shares to 170 Major Auto employees at a per share price of $2.98 in consideration for services rendered.

5. In July 1998 the Company issued 3,000 shares to Stephen Glicker at a per share price of $2.98 in consideration for services rendered.

6. In August 1998 the Company issued 18,000 shares to Pinky Gems Export Co., Ltd. at a per share price of $3.28 in consideration for consulting and telephony services and equipment.

7. In August 1998 the Company issued 150,000 shares to Robert LaRea at a per share price of $3.28 in consideration for services rendered.

8. In October 1998 the Company issued 187,500 shares to Clemont Investment at a per share price of $3.19 in consideration for consulting services.

9. In October 1998 the Company issued 40,000 shares to S & L Telecom at a per share price of $3.19 in consideration for services and equipment.

10. In October 1998 the Company issued 50,000 shares to Robert Kaszovitz at a per share price of $3.19 in consideration for services and equipment.

11. In October 1998 the Company issued 50,000 shares to Riki Roth at a per share price of $3.19 in consideration for services rendered.

12. In October 1998 the Company issued 100,000 shares to TULA Business at a per share price of $3.19 in consideration for consulting services.

13. In December 1998 Nissiko Partners exercised warrants to purchase 144,814 shares at a per share price of $1.25.

14. In December 1998 the Company issued 19,800 shares , in the aggregate, to all of the Company's employees at a per share price of $3.48 as a year-end bonus.

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

The following discussion of the operations, financial condition, liquidity and capital resources of the Company and its subsidiaries should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes thereto included elsewhere herein.

This annual report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ significantly from the results discussed in the forward-looking statements.

The Company

On May 14, 1998, the Company, a holding company whose primary purpose is the regional consolidation of the retail automotive industry, acquired, from a related party, Major Auto and related real estate for approximately $14 million in cash and capital stock. Previously, as a holding company, Fidelity Holdings, Inc. was involved in the acquisition and development of synergistic technological and telecommunications businesses and sought to capitalize on other opportunities. The Company's Board of Directors is seeking to divest the Company of its non-automotive operations in order to maintain the Company's focus on the regional consolidation of retail automotive dealerships. Accordingly, all such non-automotive operations have been classified collectively as "Discontinued Operations."

As a result of the acquisition of Major Auto, which, together with the Company's automotive leasing subsidiary, Major Fleet, represent the continuing operations of the Company, the Company is now one of the largest volume retailers in New York City of new and used vehicles. Major Auto currently maintains the following dealerships, all of which are located in Queens, New York: (i) Chevrolet; (ii) Chrysler and Plymouth; (iii) Dodge; (iv) Jeep; and (v) Subaru. The acquisition was accounted for as a purchase. Accordingly, the consolidated results of operations of the Company include the results from Major Auto only since the date of acquisition on May 14, 1998. Such results are not necessarily indicative of the results for a full year.

Results of Continuing Operations – Year Ended December 31, 1998 and Year Ended December 31, 1997

Revenues. Revenues for the year 1998 increased approximately $97,625,000 or 10,200% over the prior year. Such increase was almost solely attributable to the earnings of Major Auto which were $97,587,000 for the

period from May 14, 1998 (date of acquisition) to December 31, 1998. Revenues for Major Fleet increased approximately $38,000 (4.1%) to $992,451 in 1998.

Cost of Sales. The cost of sales in 1998 of $84.1 million is attributable to Major Auto's operations since its acquisition on May 14, 1998. There is no comparable amount for the prior year.

Gross profit. Gross profit, which showed a net increase of $13.5 million, or 1,400%, to $14.5 million for 1998, is almost totally related to the operations of Major Auto, the gross profit of which was $13.5 million since its acquisition on May 14, 1998. Gross profit as a percentage of sales for Major Auto in 1998 was 13.8%. Management of the Company believes that Major Auto's profitability during 1998 was enhanced as a result of a strike by the employees of General Motors Corporation (the "GM strike") which took place near the time that Major Auto was acquired by the Company. The Company believes that because Major Auto's Chevrolet dealership had a substantial inventory of new cars at that time while there was generally a shortage of such cars elsewhere, the Company was able to realize greater gross margins than it otherwise would have in a more competitive situation. Additionally, the Company believes that in instances where customers at its Chevrolet dealership were resistant to the price level at that time, Major Auto was able to direct such customers to its other dealerships where prices for similar vehicles were more competitive, thus increasing overall sales. It should also be noted that the acquisition of Major Auto took place at a time during the year where automotive vehicle sales generally rise and after the winter months when such sales generally decrease. For all of these reasons, the results for the period May 14, 1998 (date of acquisition) to December 31, 1998 are not necessarily indicative of the results for a full year or for any future period within a year.

Operating expense. In 1998, operating expenses increased approximately $10.5 million from $1.2 million in 1997, almost all as a result of the acquisition of Major Auto on May 14, 1998. Operating expenses attributable to Major Auto since that date aggregated $10.5 million.

Interest expense. Interest expense, net, had a net increase of $633,184 to $754,189 in 1998, from interest expense of $121,005 incurred in 1997. This is primarily related to the floor plan interest of $203,998 and interest incurred in financing the acquisition of Major Auto amounting to $473,429 and, to a lesser extent, $69,113 of interest attributable to the Company, including $43,806 of interest accrued on outstanding debentures, partially offset by income of $83,951 and a small decrease in Major Fleet's interest cost.

Discontinued operations. The Company experienced a loss from discontinued operations in 1998 of $(979,161) compared with a profit in discontinued operations in 1997. This is primarily the result of the Company's determination in the third quarter of 1997 to acquire the territorial and other rights and equipment of its existing Master Agents. Accordingly, the Company halted sales to Master Agents during the third quarter of 1997 and had no revenue from this source in 1998. Additionally, the Company has been seeking the appropriate economically viable means to divest itself of its non-automotive operations, including its telephony technology, IG-2 project and plastics operations. In order to pursue such divestiture at the maximum potential valuation, the Company has incurred the costs necessary to maintain and enhance those facets of its business in order to make them marketable. All such costs are included in discontinued operations.

Results of Operations – Year Ended December 31, 1997 and Year Ended December 31, 1996

Revenues. Revenue from continuing operations for the year 1997, all attributable to Major Fleet, was $953,033, less than a $2,000 increase from the prior year's revenue of $951,261. Inasmuch as there were no other continuing operations and there are no costs of sales related to leasing income, the amounts and the change in revenue is equal to the gross profit for the respective periods.

Operating expense. In 1997, operating expenses from continuing operations had a net increase of approximately $488,000 from $727,000 in 1996 to approximately $1.2 million. Approximately $614,000 of the increase was attributable to a full year's operations of Major Fleet which was acquired in 1996, offset by a decrease in the Company's operating expense of approximately $126,000.

Interest expense. Interest expense increased by $92,234 to $121,005 in 1997 compared with interest expense of $28,771 incurred in 1996. This increase is primarily related to the operations of Major Fleet which had an increase of $102,071 offset by a decrease in Fidelity Holdings, interest expense of $9,837.

Assets, Liquidity and Capital Resources – December 31, 1998

Primarily as a result of the acquisition of Major Auto, the Company's total assets increased to approximately $49.4 million at December 31, 1998 from approximately $9.4 million at December 31, 1997. For the same reason, stockholders' equity increased to approximately $16.5 million from $6.5 million at December 31, 1997. Included in the Company's current assets is $7,074,164 of net assets held for sale. This amount represents the total of assets less related liabilities from the Company's former Technology and Plastics Divisions, the operations of which the Company is seeking to divest in an economically productive manner. The acquisition of Major Auto was financed through a $7.5 million facility from Falcon. See "Description of Business - Automotive Division."

The Company's primary source of liquidity for the year ended December 31, 1998 was $2,259,858 from its net income of $528,140, as adjusted by non-cash charges which aggregated $1,731,718. This net increase in cash from income was increased by the effect of:

(a) a net decrease in assets of $735,161, primarily from the decreases in Major Auto's inventory since its acquisition on May 14, 1998 of $1,698,176 and other assets of $414,668, partially offset by an increase in Major Auto's accounts receivable of $767,119 and Major Fleet's increase in financing leases of $622,294; and

(a) the net decrease in liabilities of $(1,930,347) is primarily related to a decrease in Major Auto's floor plan liabilities of $(2,892,917) partially offset by an increase in due to affiliates of $802,859 and a net increase in accounts payable and accrued expenses of $198,648.

The decrease in inventories cited in (a) above, is primarily due to the relatively high levels of inventory being maintained by Major Auto at the time of its acquisition by the Company which was immediately prior to the GM strike. As discussed above under "*Gross profit,*" this inventory was subsequently sold and inventory was allowed to return to more normal levels.

The Company's investing activities had a net use of cash of $(1,080,126). The most significant component of this use was the acquisition of Major Auto, which used cash, net of cash acquired in the transaction of $(1,018,432). Additionally, cash of $780,671 was provided by financing activities: (i) the proceeds of $600,000 from the sale of convertible, subordinated debentures to a limited number of accredited investors; (ii) net proceeds from long-term debt of $429,599; and (iii) an increase in lines of credit of $300,000, partially offset an increase in due to shareholders of $(689,699) and a decrease in notes payable of $(109,080).

The foregoing activities, i.e. operating, investing and financing, resulted in a net cash increase of $759,943 for the year ended December 31, 1998.

In January 1999, the Company and its subsidiary CBS entered into a financing transaction through a Securities Purchase Agreement. This transaction consists of an aggregate of $11,350,000 in 12% convertible debentures to be drawn in three tranches. The funding for each of the tranches is subject to, among other things, the Company and CBS meeting certain milestones. The first tranche, representing $2,750,000 in gross proceeds, was closed. The Company issued to the purchasers, in the aggregate, debentures for $2.75 million, 100,000 shares of the Company's common stock, warrants to acquire 229,167 shares of the Company's common stock and warrants to acquire 70,000 shares of CBS' common stock, as well as certain placement fees and expenses. (See "Recent Developments" and Note 18 of Notes to Consolidated Financial Statements for additional details.)

The Company believes that the cash generated from existing operations, together with existing cash, available credit from its current lenders, including banks and floor planning, will be sufficient to finance its current operations, planned expansion and internal growth for at least the next twenty-four months.

Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when

information using year 2000 dates are processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures which could affect an entity's ability to conduct normal business operations.

The Company recognizes the need to ensure its operations will not be adversely impacted by the inability of the Company's systems to process data having dates which could be affected by the Year 2000 issue. The Company is currently addressing the risk with respect to the availability and integrity of its financial systems and operating systems. While the Company believes its planning efforts are adequate to address the Year 2000 concerns, there can be no assurance that the systems of other companies, including suppliers, customers and others on which the Company's operations rely are, or will be made, compliant on a timely basis and will not have a material effect on the Company. However, all such significant systems are being evaluated for compliance. The cost of the Company's Year 2000 compliance effort is not expected to be material to the Company's results of operations or financial position.

Item 7. Financial Statements

The Financial Statements are filed as a part of this Annual Report as pages F-1 through F-40 following Part IV.

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

(a) Previous independent accountants

(i) On February 5, 1999, the Company dismissed Peter C. Cosmas Co., CPAs as its independent accountants.

(ii) The reports of Peter C. Cosmas Co., CPAs on the consolidated financial statements for the past two fiscal years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

(iii) The Company's Audit Committee and Board of Directors participated in and approved the decision to change independent accountants.

(iv) In connection with its audits for the two most recent fiscal years and through February 5, 1999, there have been no disagreements with Peter C. Cosmas Co., CPAs on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Peter C. Cosmas Co., CPAs would have caused them to make reference thereto in their report on the consolidated financial statements for such years.

(v) During the two most recent fiscal years and through February 5, 1999, there have been no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)).

(vi) Peter C. Cosmas Co., CPAs furnished the Company with a letter addressed to the SEC stating that it agreed with the above statements.

(b) New independent accountants

(i) The Company engaged BDO Seidman LLP as its new independent accountants as of February 5, 1999. During the two most recent fiscal years and through February 5, 1999, the Company has not consulted with BDO Seidman LLP on items which (1) were or should have been subject to SAS 50 or (2) concerned the subject matter of

a disagreement or reportable event with the former auditor, (as described in Regulation S-K Item 304(a)(2). The Company authorized Peter C. Cosmas Co., CPAs to respond to any and all inquiries of the successor accountant.

PART III

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

The names, ages and principal occupations of the Directors and Executive Officers of the Company are as follows:

Name	Age	Position, Term In Office
Bruce Bendell	44	Chairman of the Board and Chief Executive Officer
Doron Cohen	42	President, Treasurer and a Director
David Edelstein	45	Director
Richard L. Feinstein	55	Chief Financial Officer
James Wallick	48	Director
Jeffrey Weiner	41	Director

The following is a brief description of the professional experience and background of the directors and executive officers of the Company:

Bruce Bendell. Mr. Bendell has served as the Company's Chairman of the Board since its incorporation in November 1995, as its Chief Executive Officer since May 1998 and as President from May 14, 1998 to December 1998. Mr. Bendell has served as the President and a director of Major Chevrolet and its affiliates since December 1985.

Doron Cohen. Mr. Cohen has served as the President, Treasurer and a director of the Company since its incorporation in November 1995, except for the period May 14, 1998 through December 18, 1998 during which period Bruce Bendell served as President of the Company. Mr. Cohen has also served as the president of the Company's subsidiary, CBS since 1995. From 1991 to 1995, Mr. Cohen served as President and Chief Executive Officer of Holtman Enterprises, a construction and interior design company.

David Edelstein. Mr. Edelstein has served as a director of the Company since May 1998. Mr. Edelstein has been in the real estate development business since 1979. Currently he is the Managing Member of Sutton East Associates LLC, a real estate development limited liability company and is involved in several sizable real estate projects in New York and Florida.

Richard L. Feinstein. Mr. Feinstein has served as the Company's Chief Financial Officer since December 1997. From 1994 to December 1997, Mr. Feinstein maintained his own financial and management consulting practice. From 1989 to 1994, Mr. Feinstein served as Managing Director and Chief Financial Officer of Employee Benefit Services, Inc. From 1978 to 1989, Mr. Feinstein was a partner in KPMG Peat Marwick and a predecessor firm.

James Wallick. Mr. Wallick has served as a director of the Company since May 1998. Mr. Wallick has been in the automotive dealership and financing business since 1971. He is currently president of MLC Leasing and Apple Chevrolet and vice president and a director of TecFin Corp.

Jeffrey Weiner. Mr. Weiner has served as a director of the Company since May 1998. Mr. Weiner is a certified public accountant and has been with the accounting firm of Marcum & Kliegman LLP, where he is currently Managing Partner, since 1981.

The following persons, although not executive officers of the Company, are regarded by management as key personnel:

Zvi Barak. Mr. Barak, age 46, has served as the Director of Research and Development of the Company's Computer Telephony and Telecommunications division since April, 1996. From 1992 to August 1996, Mr. Barak served as President of Info Systems.

Moise Benedid. Mr. Benedid, age 49, has served as the President of the Company's Canadian subsidiary Info Systems since August 1996. From November 1994 through July 1996, Mr. Benedid served as Vice President in charge of marketing and technical support for TelePower International, Inc., where he was responsible for the sale in Canada of franchises based on the "Talkie" technology. From December 1992 to November 1994, Mr. Benedid served as President of Powerpoint Microsystems, Inc., and from August 1989 to December 1992, he served as President of Computer Junction, a Toronto-based computer retail store.

Harold Bendell. Mr Bendell, age 51, has served as served as a senior executive of Major Auto since December 1985. He, together with his brother, Bruce Bendell, is responsible for the day to day operations of Major Auto.

Bruce Hall. Mr. Hall, age 53, has served as Vice President of Operations of the Company since March 1998. From November 1997 to March 1998, Mr. Hall was a consultant to the Company. For the thirty years prior to that time, he was with Bell Atlantic (NYNEX), most recently as their Director of Operations for the Borough of Queens, New York.

Kimberly R. Peacock. Ms. Peacock, age 33, serves as president of the Company's Internet technology subsidiary, IG2™, Inc. Ms. Peacock has been associated with the Company in various technical capacities since February 1997. Prior to such time she worked as an independent technical consultant to several Fortune 500 companies and helped found two Internet service providers.

John Pinciaro. Mr. Pinciaro, age 49, serves as Vice-President of the Company's subsidiary Premo-Plast since January 1, 1997 and will serve as the President of the subsidiary of the Company formed in October 1997 to exploit the Company's spa fixture technology. Mr. Pinciaro has served as the Chief Executive Officer of ThermoSpas, Inc., a manufacturer and distributor of spas, since it inception in 1983.

Ronald K. Premo. Mr. Premo, age 60, has served as the President of the Company's subsidiary Premo-Plast since January 1997. In 1993, Mr. Premo founded and has since operated R.K. Premo & Associates, a manufacturer's representative agency for the plastics industry. From 1987 to 1993, Mr. Premo was a Manufacturer's Representative for R.W. Mitscher, Inc.

The term of office of each person elected as a Director will continue until the Company's next Annual Meeting of Shareholders or until his successor has been elected.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during Fiscal 1998, its officers, directors, and greater than ten-percent beneficial owners have complied with all applicable Section 16(a) filing requirements with the exception of the following: one late filing on Form 3 was made by each of Bruce Bendell, Doron Cohen, Richard Feinstein, David Edelstein, James Wallick and Jeffrey Weiner, and one late filing on Form 4 with respect to two transactions was made by Jeffrey Weiner.

Item 10. Executive Compensation.

Summary Compensation Table

The following table sets forth information for each of the Company's fiscal years ended December 31, 1998 and 1997 concerning compensation of (i) all individuals serving as the Company's Chief Executive Officer during

the fiscal year ended December 31, 1998 and (ii) each other executive officer of the Company whose total annual salary and bonus equaled or exceeded $100,000 in the fiscal year ended December 31, 1998:

		Annual Compensation			
Other Other Name and Principal Position	Year	Salary($)	Bonus($)	($)Annual	All Compensation($)
Doron Cohen(1)	1998	246,500	0	0	0
President and Treasurer	1997	206,500	0	0	0
Bruce Bendell(2)	1998	248,530	127,437	0	0
Chairman and Chief Executive Officer	1997	178,080	0	0	0
Bruce Hall(3)	1998	135,000	0	6,000	0
	1997	11,250	0	500	0
Richard Feinstein(4)	1998	125,000	0	3,166	0
	1997	35,000	0	0	0
Zvi Barak(5)	1998	150,000	0	23,000	0
Director of Research and Development	1997	150,000	0	23,000	0

(1) Salary in 1998 includes $150,000 from the Company (subsequently paid through the issuance of 39,024 shares of the Company's Common Stock). Mr. Cohen waived his salary from the Company for the years ended December 31, 1997. This salary will not accrue. Mr. Cohen was paid a salary in 1997 of $56,500 from Computer Business Sciences.

(2) Salary in 1998 includes $150,000 from the Company (subsequently paid through the issuance of 39,024 shares of the Company's Common Stock). Mr. Bendel received $81,250 in salary and $127,437 in bonus from Major Auto since its acquisition on May 14, 1998. Mr. Bendell waived his consultant's fee from the Company for the years ended December 31, 1997 and 1996. This fee will not accrue. Mr. Bendell received $17,280 and $28,080 as management fees from Major Fleet for management services performed in 1998 and 1997, respectively.

(3) 1998 amounts represent a full year of salary and automobile allowance of $500 per month for Mr. Hall who commenced employment in December 1997.

(4) Mr. Feinstein was a part time consultant in 1997 and commenced full time employment in January 1998. Other Annual amount represents an automobile allowance of $527 per month since July 1998.

(5) Includes $5,000 for life and disability insurance premiums and $18,000 annual automobile allowance.

Option Grants Table

No individual grants of stock options were made during the fiscal year ended December 31, 1998 to any of the executive officers of the Company named in the Summary Compensation Table.

Aggregated Option Exercises and Fiscal Year-End Option Value Table

No stock options were exercised during the fiscal year ended December 31, 1997 by any of the executive officers named in the Summary Compensation Table. The value of unexercised options held by any such persons as of December 31, 1998 was as follows for Bruce Bendell (the only such option holder):

Total number of shares underlying unexercised options	50,000
Exercisable options	50,000
Unexercisable options	- 0 –
Value of in-the-money options	$162,500(1)

(1) Represents warrants to acquire 50,000 shares of Common Stock issued to Mr. Bendell on October 2, 1996 as a signing bonus under a management agreement with the Company to manage the operations of Major Fleet.

Compensation of Directors

Directors of the Company were not compensated for their services in 1998. The Company reimburses directors for their expenses of attending meetings of the Board of Directors.

As of November 7, 1995, the Company's date of incorporation, the Company entered into a Consulting Agreement with Bruce Bendell, its Chairman, pursuant to which he serves as a business, management and financial consultant to the Company for a period ending on December 31, 1998, subject to successive one-year extensions at the option of the Company. Mr. Bendell receives an annual consulting fee as determined by the Company's Board of Directors from time to time, but not less than $150,000. The consulting fee is subject to a yearly cost-of-living adjustment and may also be retroactively increased based upon the Company's profits per outstanding share of Common Stock for the applicable year. The available percentage increase in consulting fee as a result of profits ranges from 5% for break-even results to 150% for earnings per share exceeding $1.00 per share. Mr. Bendell is also entitled to a bonus in such amounts and at such times as determined by the Company's Board of Directors. In addition, the agreement provides that Mr. Bendell is entitled to various fringe benefits and is entitled to participate in any incentive, stock option, deferred compensation or pension plans established by the Company's Board of Directors. Mr. Bendell has agreed not to disclose confidential information relating to the Company and has agreed not to compete with, or solicit employees or customers of, the Company during specified periods following the breach or termination of his agreement to serve as a consultant to the Company. Mr. Bendell has been serving at will since the expiration of the agreement pursuant to the same terms. Mr Bendell's consulting fee in 1998 includes $150,000 subsequently paid through the issuance of 39,024 shares of the Company's Common Stock. See "Executive Compensation."

Employment Contracts and Termination of Employment, and Change in Control Arrangements

Doron Cohen. As of November 7, 1995, the Company's date of incorporation, the Company entered into an Employment Agreement with Doron Cohen, pursuant to which he serves as the Company's President, Chief Executive Officer and Treasurer for a period ending on December 31, 1998, subject to successive one-year extensions at the option of the Company. Mr. Cohen receives an annual base salary as determined by the Company's Board of Directors from time to time, but not less than $150,000. The annual salary is subject to a yearly cost-of-living adjustment and may also be retroactively increased based upon the Company's profits per outstanding share of Common Stock for the applicable year. The available percentage increase in salary as a result of profits ranges from 5% for break-even results to 150% for earnings per share in excess of $1.00 per share. Mr. Cohen is also entitled to a bonus in such amounts and at such times as determined by the Company's Board of Directors. In addition, the agreement provides that Mr. Cohen is entitled to various fringe benefits under the agreement and is entitled to participate in any incentive, stock option, deferred compensation or pension plans established by the Company's Board of Directors. Mr. Cohen has agreed not to disclose confidential information relating to the Company and has agreed not to compete with, or solicit employees or customers of, the Company during specified periods following discontinuance of his employment for any reason other than a termination for cause. Mr. Cohen has been serving at will since the expiration of the agreement pursuant to the same terms. Mr. Cohen's salary in 1998 includes $150,000 subsequently paid through the issuance of 39,024 shares of the Company's Common Stock. See "Executive Compensation."

Zvi Barak. As of April 18, 1996, the Company entered into an Employment Agreement with Zvi Barak, pursuant to which he serves as the Company's Director of Research & Development for a period ending on April 30, 2001, subject to a one-year extension at the option of the Company. Mr. Barak receives an annual base salary as determined by the Company's Board of Directors from time to time, but not less than $150,000. The annual salary is subject to a yearly cost-of-living adjustment and may also be retroactively increased based upon the Company's profits per outstanding share of Common Stock for the applicable year. The available percentage increase in salary as a result of profits ranges from 5% for break-even results to 150% for earnings per share in excess of $1.00 per

share. Mr. Barak is also entitled to a bonus in such amounts and at such times as determined by the Company's Board of Directors and to an annual royalty incentive in an amount equal to 2% of gross revenues received from sales of new products developed under his direction. In addition, the agreement provides that Mr. Barak is entitled to various fringe benefits under the agreement, including an annual allowance of $5,000 for disability insurance and $18,000 for the purchase or lease of an automobile, and is entitled to participate in any incentive, stock option, deferred compensation or pension plans established by the Company's Board of Directors. Pursuant to the agreement, the Company established a research and development facility in Israel and, in the event that Mr. Barak elects to establish residence outside of Israel, the Company has agreed to establish another research and development facility in the location where Mr. Barak establishes his residence. The Company spent approximately $25,000 to open the research and development facility in Israel and spends approximately $27,600 per month to operate such facility. Mr. Barak is obligated to pay the expenses of relocating himself to Israel and to any subsequent residence. Mr. Barak has agreed not to disclose confidential information relating to the Company's business and has agreed not to compete with, or solicit employees or customers of, the Company during specified periods if he resigns, is terminated for cause or if his employment agreement expires without being renewed.

Indemnification of Directors and Officers

Under the Nevada General Corporation Law, as amended, a director, officer, employee or agent of a Nevada corporation may be entitled to indemnification by the corporation under certain circumstances against expenses, judgments, fines and amounts paid in settlement of claims brought against them by a third person or by or in right of the corporation.

The Company is obligated under its Articles of Incorporation to indemnify any of its present or former directors who served at the Company's request as a director, officer or member of another organization against expenses, judgments, fines and amounts paid in settlement of claims brought against them by a third person or by or in right of the corporation if such director acted in good faith or in a manner such director reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal action or proceeding, if such director had no reason to believe his or her conduct was unlawful. However with respect to any action by or in the right of the Company, the Articles of Incorporation prohibit indemnification in respect of any claim, issue or matter as to which such director is adjudged liable for negligence or misconduct in the performance is his or her duties to the Company, unless otherwise ordered by the relevant court. The Company's Articles of Incorporation also permit it to indemnify other persons except against gross negligence or willful misconduct.

The Company is obligated under its bylaws to indemnify its directors, officers and other persons who have acted as representatives of the Company at its request to the fullest extent permitted by applicable law as in effect from time to time, except for costs, expenses or payments in relation to any matter as to which such officer, director or representative is finally adjudged derelict in the performance of his or her duties, unless the Company has received an opinion from independent counsel that such person was not so derelict.

The Company's indemnification obligations are broad enough to permit indemnification with respect to liabilities arising under the Securities Act. Insofar as the Company may otherwise be permitted to indemnify its directors, officers and controlling persons against liabilities arising under the Securities Act or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

The Nevada General Corporation Law, as amended, also permits a corporation to limit the personal liability of its officers and directors for monetary damages resulting from a breach of their fiduciary duty to the corporation and its stockholders. The Company's Articles of Incorporation limit director liability to the maximum extent permitted by The Nevada General Corporation Law, which presently permits limitation of director liability except (i) for a director's acts or omissions that involve intentional misconduct, fraud or a knowing violation of law and (ii) for a director's willful or grossly negligent violation of a Nevada statutory provision that imposes personal liability on directors for improper distributions to stockholders. As a result of the inclusion in the Company's Articles of Incorporation of this provision, the Company's stockholders may be unable to recover monetary damages against directors as a result of their breach of their fiduciary duty to the Company and its stockholders. This provision does

not, however, affect the availability of equitable remedies, such as injunctions or rescission based upon a breach of fiduciary duty by a director.

The Company maintains a $5 million liability insurance policy for the benefit of its officers and directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following tables sets forth information with respect to the beneficial ownership of each class of the Company's securities as of April 8, 1999, respectively, by (i) each director of the Company, (ii) each executive officer of the Company, (iii) all directors and executive officers of the Company as a group and (iv) each person known to the Company to own more than 5% of any class of it securities:

Name and Address(9)	Common Stock Number	Percent	1996 Major Series of Convertible Preferred Stock(2) Number	Percent	1997 Major Series of Convertible Preferred Stock(3) Number	Percent
Bruce Bendell	4,689,034 (4)	44.14%	125,000(5)	50%	900,000(5)	100.0%
Doron Cohen	2,539,024 (6)	29.8%				
David Edelstein	400	*				
Richard L. Feinstein	20,000	*				
James Wallick	0	*				
Jeffrey Weiner	2,200(8)	*				
All directors and executive officers as a group	7,250,658(7)	68.3%				

*Represents less than 1% of the outstanding shares of Common Stock.

(1) Based on 8,522,121 shares of Common Stock outstanding on April 8, 1999.

(2) Based on 250,000 shares of the 1996-Major Series of Convertible Preferred Stock outstanding on December 31, 1998.

(3) Based on 900,000 shares of the 1997-Major Series of Convertible Preferred Stock outstanding on December 31, 1998.

(4) Includes (i) 10 shares of Common Stock owned by Bruce Bendell's wife and the following shares of Common Stock which Bruce Bendell has the right to acquire within 60 days: (a) 250,000 shares of Common Stock, the minimum number of shares of Common Stock into which the 125,000 shares of the 1996-MAJOR Series of Convertible Preferred Stock beneficially owned by Bruce Bendell are convertible, (b) 50,000 shares of Common Stock which Bruce Bendell has the right to acquire upon the exercise of warrants and (c) 1,800,000 shares of Common Stock, the minimum number of shares of Common Stock into which the 900,000 shares of the 1997-Major Series of Convertible Preferred Stock beneficially owned by Bruce Bendell are convertible. Does not reflect a proxy giving Mr. Bendell the sole right to vote an additional 500,000 shares of Common Stock issued pursuant to the MOU for a period of two years. See "Description of Business Computer Telephony and Telecommunications Division-Talkie-Restructuring of Nissko Arrangements." Does not reflect Mr. Cohen's agreement to give Bruce Bendell a proxy to vote 750,000 of Mr. Cohen's shares during the two-year period commencing on October 14, 1997.

(5) All of such shares of the 1996-Major Series and 1997-Major Series of Convertible Preferred Stock are held in a trust created under the law of Gibraltar. Bruce Bendell is the principal beneficiary of such trust.

(6) Does not reflect Mr. Cohen's agreement to give Bruce Bendell a proxy to vote 750,000 of Mr. Cohen's shares during the two-year period commencing on October 14, 1997.

(7) Includes (i) 2,210 shares of Common Stock owned by immediate family members of directors and executive officers as a group and (ii) 2,100,000 shares of Common Stock that the directors and executive officers as a group have the right to acquire within 60 days.

(8) Includes 2,000 shares owned by Mr. Weiner's wife.

(9) The address for each beneficial owner is c/o Fidelity Holdings, Inc., 80-02 Kew Gardens Rd., Suite 5000, Kew Gardens, NY 11415.

Item 12. Certain Relationships and Related Transactions.

See "Executive Compensation-Employment Contracts and Termination of Employment, and Change in Control Arrangements" for a description of (i) the Employment Agreement between the Company and Doron Cohen, its President, Treasurer and one of its directors, and (ii) the Employment Agreement between the Company and Zvi Barak, its Director of Research and Development. In addition, in January 1999, Mr. Cohen was granted piggyback registration rights with respect to 39,024 shares of Company common stock issued to him as compensation for fiscal 1998. See "Executive Compensation."

See "Executive Compensation-Compensation of Directors" for a description of the Consulting Agreement between the Company and Bruce Bendell, its Chairman and Chief Executive Officer. In addition, in January 1999, Mr. Bendell was granted piggyback registration rights with respect to 39,024 shares of Company common stock issued to him as compensation for fiscal 1998. See "Executive Compensation."

In January 1999, Richard Feinstein, the Company's Chief Financial Officer, was granted standard piggyback registration rights with respect to 20,000 shares of Company common stock issued to him as a bonus for fiscal 1999.

Following the acquisition of Major Auto by the Company, Bruce and Harold Bendell continue to be responsible for senior-level management of the dealerships. The Bendell brothers and the Company believe that this continuity of senior management was important in obtaining the manufacturers' consents to the transfer of the dealerships to the Company. The Bendell brothers' management control has been accomplished through (i) their ownership of 100 shares of the Company's 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock (of which shares Bruce Bendell has a proxy to vote the 50 shares of the 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock owned by Harold Bendell for a seven-year period which commenced on January 7, 1998) which carries voting rights allowing them to elect a majority of the Board of Directors of Major Auto, and through (ii) a related management agreement, discussed immediately below, See "Description of Securities-Preferred Stock-I 997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock" below.

To further facilitate obtaining the required manufacturers' consents, the Bendells and the Company have entered into a management agreement pursuant to which the Bendells will have the exclusive right and obligation to manage the automobile dealerships acquired by the Company in connection with the Major Auto Acquisition and any additional automobile dealerships that the Company may acquire in the future. The management agreement is for a term ending on December 31, 2002 and may not be earlier terminated unilaterally by the Company. If the Company continues to own automobile dealerships at the end of the term, the management agreement may be unilaterally extended by the Bendell brothers in order to maintain the level of management control that will avoid the need to seek further manufacturer consents. Should either of the Bendell brothers cease managing the dealerships, the management agreement provides that ownership of his 1997A-MAJOR AUTOMOTIVE GROUP Series of Preferred Stock shares and his management rights under the management agreement will be automatically transferred to the other, and should both brothers cease managing the dealerships for any reason, the shares and management rights will be automatically transferred to a successor manager designated in a successor addendum to each dealership agreement or, failing such designation, to a successor manager designated by the Company (subject to approval by the applicable manufacturers). As noted in the prior paragraph, Bruce and Harold Bendell will retain the right to elect a majority of the directors of Major Auto (and possibly other affiliates in the future) in order to facilitate obtaining the required manufacturers' consents. Should the Boards of Directors of Major Auto and the

Company disagree as to a particular course of action, Major Auto would nonetheless be able to take the action in question, except that the management agreement prohibits certain actions without the prior approval by the Company's Board of Directors. Those actions are (i) disposing of any of the Major Auto dealerships, (ii) acquiring new dealerships, and (iii) the Company incurring liability for Major Auto indebtedness. Any compensation that Bruce Bendell is entitled to receive under the management agreement is in addition to any other compensation that he is entitled to receive as Chairman and Chief Executive Officer of the Company.

As part of the Major Auto Acquisition, Major Auto acquired two related real estate components from Bruce and Harold Bendell for a purchase price of $3 million. See "Automotive Division" for a description of the Major Auto Acquisition.

The Company has entered into a MOU with the Agent, the Nissko Principals, and with the remaining limited partner of Nissko, Robert L. Rimberg. Mr. Rimberg performs legal services on behalf of the Company. The MOU looks toward restructuring the Nissko arrangements as described above under "Description of Business--Computer Telephony and Telecommunications Division-Talkie-Restructuring of Nissko Arrangements."

The Company has made a loan to its President, Doron Cohen, in the principal amount of $140,000, bearing interest at 5.77% per annum, uncompounded. The loan is evidenced by a promissory note dated December 31, 1996. The promissory note provides that the full principal amount of, and all accrued interest on, the loan is due and payable in a single installment on December 31, 1999.

Bruce Bendell, and Major Chevrolet, Major Dodge and Major Chrysler Plymouth Jeep Eagle, wholly-owned by Major Auto, have guaranteed the obligations of Major Fleet under a $5,000,000 line of credit with Marine Midland Bank. In addition, Bruce Bendell and Major Fleet have guaranteed the obligations of Major Auto's subsidiaries under certain of their agreements with various financial institutions pursuant to which such subsidiaries sell their vehicle finance contracts and leases. Major Fleet has pledged its assets to such financial institutions to secure its guarantee. In addition, such subsidiaries have cross-guaranteed and cross-collateralized their respective agreements with such financial institutions. See "Description of Business-Automotive Sales Division-Dealership Operations-Vehicle Financing" and "-Leasing Division" for a description of certain transactions between Major Auto and Major Fleet.

Major Subaru subleases from an unrelated third party approximately 2,500 square feet of office and automobile showroom space in Woodside, New York. This lease expired on January 31, 1998 and contains no renewal provisions. The property is currently being leased on a month-to-month basis. The annual rent under such lease was $69,457.56. Pursuant to an informal arrangement between Major Subaru and Major Fleet, Major Fleet occupies the space and pays the rental payments.

On October 1, 1998 the Company entered into a consulting agreement with Clemont Investments Ltd., a consulting firm which provides business advisory services regarding the establishment in Europe of branches or operations of U.S. based companies. In consideration for its services, Clemont will receive, over a three to five year period (i) 54,000 shares of Company common stock in connection with the performance of certain consulting services, (ii) 79,500 shares of Company common stock in connection with providing the Company with certain business contacts, (iii) 54,000 shares of Company common stock in connection with compliance with certain restrictive covenants contained in the Consulting Agreement (collectively, the "Clemont Shares"). The Company has the right to repurchase the Clemont Shares under certain circumstances at a price of up to $4.00 per share. In connection with the Consulting Agreement, Clemont entered into a put agreement with Bruce Bendell, Chairman and CEO of the Company on October 1, 1998 pursuant to which Mr. Bendell agreed, under certain conditions, to purchase the Clemont Shares from Clemont during such period, less any Clemont Shares repurchased by the Company.

The Company has retained the accounting firm of Marcum & Kliegman LLP to provide certain accounting and tax services for the Company and its subsidiary Major Fleet. In 1998, the Company paid Marcum & Kliegman LLP $48,000 for its services. Mr. Weiner, a director of the Company, is Managing Partner of Marcum & Kliegman LLP.

PART IV

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description	Page
3.1*	Articles of Incorporation of Fidelity Holdings, Inc., ("Company") incorporated by reference to Exhibit 3.1 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.2*	Articles of Incorporation of Computer Business Sciences, Inc., incorporated by reference to Exhibit 3.2 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.3*	Articles of Incorporation of 786710 (Ontario) Limited, incorporated by reference to Exhibit 3.3 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.4*	Articles of Incorporation of Premo-Plast, Inc., incorporated by reference to Exhibit 3.4 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.5*	Articles of Incorporation of C.B.S. Computer Business Sciences Ltd., incorporated by reference to Exhibit 3.5 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.6*	Articles of Incorporation of Major Fleet & Leasing Corp., incorporated by reference to Exhibit 3.6 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.7*	Articles of Incorporation of Reynard Service Bureau, Inc., incorporated by reference to Exhibit 3.7 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.8*	Articles of Incorporation of Major Acceptance Corp., incorporated by reference to Exhibit 3.8 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
3.9*	By-Laws of the Company incorporated by reference to Exhibit 3.9 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
4.1*	Certificate of Designation for the Company's 1996-MAJOR Series of Convertible Preferred Stock, incorporated by reference to Exhibit 4.1 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
4.1(i)**	Form of Amended and Restated Certificate of Designation for the Company's 1996-MAJOR Series of Convertible Preferred Stock.	N/A

4.2*	Warrant Agreement for Nissko Warrants, incorporated by reference to Exhibit 4.2 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
4.3*	Warrant Agreement for Major Fleet Warrants, incorporated by reference to Exhibit 4.3 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
4.3(i)**	Amended and Restated Warrant Agreement, dated October 11, 1997 between the Company, Bruce Bendell and Harold Bendell.	N/A
4.4*	Warrant Agreement for Progressive Polymerics International, Inc. Warrants, incorporated by reference to Exhibit 4.4 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
4.5**	Form of Certificate of Designation for the Company's 1997A-Major Automotive Group Series of Preferred Stock.	N/A
4.6**	Form of Certificate of Designation for the Company's 1997-Major Series of Convertible Preferred Stock.	N/A
4.7**	Form of Registration Rights Agreement between the Company and Bruce Bendell.	N/A
4.8**	Stock Pledge and Security Agreement, dated March 26, 1996, between Doron Cohen, Bruce Bendell, Avraham Nissanian, Yossi Koren, Sam Livian and Robert Rimberg.	N/A
4.9**	Form of Registration Rights Agreement between the Company, Castle Trust and Management Services Limited and Bruce Bendell.	N/A
4.10**	Form of the Company's 10% Convertible Subordinated Debenture due 1999.	N/A
4.11****	Certificate of Designation for the Company's 1997-MAJOR series of Convertible Preferred Stock.	N/A
4.11******	Form of Warrant	N/A
4.12******	Form of CBS Warrant	N/A
4.13******	Form of Debenture	N/A
10.1*	Employment Agreement, dated November 7, 1995, between the Company and Doron Cohen, incorporated by reference to Exhibit 10.1 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.1(i)**	Amendment No. 1 to Employment Agreement, dated as of November 7, 1995 between the Company and Doron Cohen.	N/A
10.2*	Consulting Agreement, dated November 7, 1995, between the Company and Bruce Bendell, incorporated by reference to Exhibit 10.2 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A

10.2(i)**	Amendment No. 1 to Consulting Agreement, dated as of November 7, 1995 between Fidelity Holdings, Inc. and Bruce Bendell.	N/A
10.3*	Agreement for Purchase of Patents, dated November 14, 1995, between the Company and Progressive Polymerics, Inc., incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.3(i)*	First Amendment, dated September 30, 1996, to Agreement for Purchase of Patents, dated November 14, 1995, incorporated by reference to Exhibit 10.4 of Company's Registration Statement on Form 10-SB as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.5*	Agreement, dated March 25, 1996, between Nissko Telecom, Ltd. and Computer Business Sciences, Inc., incorporated by reference to Exhibit 10.5 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.6*	Asset Purchase Agreement, dated April 18, 1996, between the Company and Zvi and Sarah Barak, incorporated by reference to Exhibit 10.6 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.6(i)**	Amendment to Asset Purchase Agreement dated August 7, 1997.	N/A
10.7*	Employment Agreement dated April 18, 1996 between the Company and Dr. Zvi Barak, incorporated by reference to Exhibit 10.7 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.8*	Employment Agreement dated October 18, 1996 between Computer Business Sciences, Inc. and Paul Vesel, incorporated by reference to Exhibit 10.8 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.9*	Indemnification Agreement dated November 7, 1995 between the Company and Doron Cohen, incorporated by reference to Exhibit 10.9 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.10*	Indemnification Agreement dated November 7, 1995 between the Company and Bruce Bendell, incorporated by reference to Exhibit 10.10 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.11*	Indemnification Agreement dated December 6, 1995 between the Company and Richard C. Fox, incorporated by reference to Exhibit 10.11 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.12*	Indemnification Agreement dated March 28, 1996 between the Company and Dr. Barak, incorporated by reference to Exhibit 10.12 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A

10.13*	Indemnification Agreement dated March 28, 1996 between the Company and Yossi Koren, incorporated by reference to Exhibit 10.13 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.14*	Plan of Reorganization for acquisition of Major Fleet & Leasing Corp. dated August 23, 1996 between the Company, Bruce Bendell and Harold Bendell, incorporated by reference to Exhibit 10.17 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.15*	Patent Purchase Agreement dated December 30, 1996 between Premo-Plast, Inc. and John Pinciaro, incorporated by reference to Exhibit 10.16 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.16*	Employment Agreement dated December 30, 1996 between Premo-Plast, Inc. and John Pinciaro, incorporated by reference to Exhibit 10.17 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.17*	Employment Agreement dated January 27, 1997 between the Company and Ronald K. Premo, incorporated by reference to Exhibit 10.18 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.18*	Plan and Agreement of Merger, dated April 21, 1997, the Company, Major Automotive Group, Inc., Major Acquisition Corp. and Bruce Bendell, incorporated by reference to Exhibit 10.19 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.18(i)**	Amendment to Plan and Agreement of Merger, dated August 1, 1997, between Fidelity Holdings, Inc., Major Automotive Group, Inc., Major Acquisition Corp. and Bruce Bendell.	N/A
10.18(ii)**	Amendment to Plan and Agreement of Merger, dated August 26, 1997, between Fidelity Holdings, Inc., Major Automotive Group, Inc., Major Acquisition Corp. and Bruce Bendell.	N/A
10.18(iii)**	Amendment to Plan and Agreement of Merger, dated November 20, 1997, between Fidelity Holdings, Inc., Major Automotive Group, Inc., Major Acquisition Corp. and Bruce Bendell.	N/A
10.18(iv)****	Amendment to Plan and Agreement of Merger, dated March 20, 1998, between Fidelity Holdings, Inc., Major Automotive Group, Inc., Major Acquisition Corp., and Bruce Bendell.	N/A
10.19*	Stock Purchase Agreement with Escrow Agreement attached, incorporated by reference to Exhibit 10.20 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.20*	Management Agreement, incorporated by reference to Exhibit 10.21 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A

10.21*	Employment Agreement with Moise Benedid, incorporated by reference to Exhibit 10.22 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
10.22**	Partnership Agreement between Nissko Telecom Associates and the Company.	N/A
10.23**	Memorandum of Understanding, dated September 9, 1997, by and among Computer Business Sciences, Inc., Nissko Telecom Ltd., the Company and Robert L. Rimberg.	N/A
10.24**	Letter of Intent, dated June 6, 1997, between the Company and SouthWall Capital Corp. (formerly known as Sun Coast Capital Corp.)	N/A
10.25**	Letter of Intent, dated September 1997, between the Company, Lichtenberg Robbins Buick, Inc. and Lichtenberg Motors Inc.	N/A
10.26**	Consulting Agreement, dated February 18, 1997, with Ronald Shapss Corporate Services, Inc.	N/A
10.27**	Value Added Reseller Agreement between Summa Four, Inc. and Computer Business Sciences, Inc., as Reseller.	N/A
10.28**	Lease Agreement, dated March 1996, between 80-02 Leasehold Company, as Owners and the Company, as Tenant.	N/A
10.29**	Master Lease Agreement, dated December 26, 1996, between Major Fleet & Leasing Corp., as Lessor, and Nissko Telecom, Ltd., as Lessee.	N/A
10.30**	Sublease Agreement, dated March 1995, between Speedy R.A.C., Inc., as Sublessor, and Major Subaru Inc., as Sublessee.	N/A
10.31**	Lease Agreement, dated November 1, 1991, between Gloria Hinsch, as Landlord, and Major Chrysler-Plymouth, Inc., as Tenant.	N/A
10.32**	Store Lease Agreement, dated June 10, 1992, between Bill K. Kartsonis, as Owner, and Major Automotive Group, as Tenant.	N/A
10.33**	Lease Agreement, dated June 3, 1994, between General Motors Corporation, as Lessor, and Major Chevrolet, Inc., as Lessee.	N/A
10.34**	Lease Agreement, dated August 1990, between Bruce Bendell and Harold Bendell, as Landlord and Major Chrysler-Plymouth, Inc., as Tenant.	N/A
10.34(i)**	Extension of Lease Agreement, dated August 14, 1997, between Bruce Bendell and Harold Bendell, as Landlord and Major Dodge, Inc. (formerly known as Major Chrysler-Plymouth, Inc.), as Tenant.	N/A
10.34(ii)**	Extension of Lease Agreement, dated December 16, 1997, between Bruce Bendell and Harold Bendell, as Landlord and Major Dodge (formerly known as Major Chrysler-Plymouth, Inc.), as Tenant.	N/A
10.35**	Lease Agreement, dated February 1995, between Bendell Realty, L.L.C., as Landlord, and Major Chrysler-Plymouth Jeep Eagle, Inc., as Tenant.	N/A
10.35(i)**	Extension of Lease Agreement, dated August 14, 1997, between Bendell Realty, L.L.C., as Landlord and Major Chrysler-Plymouth Jeep Eagle, Inc., as Tenant.	N/A

10.35(ii)**	Extension of Lease Agreement, dated December 16, 1997, between Bendell Realty, L.L.C., as Landlord and Major Chrysler-Plymouth Jeep Eagle, Inc., as Tenant.	N/A
10.36**	Lease Agreement, dated February 1996, between Prajs Drimmer Associates, as Landlord, and Barak Technology Inc., as Tenant.	N/A
10.37**	Sublease Agreement, dated January 8, 1997, between Newsday, Inc., as Sublessor, and Major Fleet & Leasing Corp., as Sublessee.	N/A
10.37(i)**	Consent to Sublease Agreement, dated January 16, 1997, between 80-02 Leasehold Company, Newsday Inc. and Major Fleet and Leasing Corp.	N/A
10.38**	General Security Agreement between Major Fleet & Leasing Corp., as Debtor, and Marine Midland Bank, as Secured Party.	N/A
10.39**	Retail and Wholesale Dealer's Agreement, dated March 30, 1995, between Marine Midland Bank, as Bank, and Major Fleet & Leasing Corp., as Dealer.	N/A
10.40**	Wholesale Lease Financing Line of Credit between General Electric Capital Corporation, as Lender, and Major Fleet & Leasing Corp., as Borrower.	N/A
10.41**	Chrysler Leasing System License Agreement between Chrysler Motors Corporation, as Licensor, and Major Fleet & Leasing Corp., as Licensee.	N/A
10.42**	GMAC Retail Plan Agreement between General Motors Acceptance Corp. and Major Fleet & Leasing Corp., as Dealer.	N/A
10.43**	Fidelity Holdings, Inc. 1996 Employees' Performance Recognition Plan.	N/A
10.44**	Secured Promissory Note, dated December 31, 1996, between Doron Cohen, as Maker, and Fidelity Holdings, Inc., as Holder.	N/A
10.45 **	Dealer Master Agent Agreement and License, dated February 1996, between Computer Business Sciences, Inc. and Progressive Polymerics International, Inc., as Master Agent.	N/A
10.46**	Dealer Master Agent Agreement and License, dated February 1996, between Computer Business Sciences, Inc. and Cellular Credit Corp. of America, Inc., as Master Agent.	N/A
10.47**	Dealer Master Agent Agreement and License, dated February 1996, between Computer Business Sciences, Inc. and America's New Beginning, Inc., as Master Agent.	N/A
10.48**	Dealer Master Agent Agreement and License, dated February 1996, between Computer Business Sciences, Inc. and Korean Telecom, as Master Agent.	N/A
10.49**	Dealer Master Agent Agreement and License, dated February 1996, between Computer Business Sciences, Inc. and Philcom Telecommunications, as Master Agent.	N/A
10.50**	Management Agreement, dated August 23, 1996, between Major Fleet, Bruce Bendell and Harold Bendell.	N/A
10.51**	Wholesale Security Agreement, dated April 26, 1990, between General Motors Acceptance Corporation ("GMAC") and Major Fleet.	N/A
10.51(i)**	Amendment, dated February 14, 1991, to Wholesale Security Agreement between GMAC and Major Fleet.	N/A

10.52**	Direct Leasing Plan Dealer Agreement, dated July 24, 1986, between GMAC and Major Fleet.	N/A
10.53**	Retail Lease Service Plan Agreement, dated April 3, 1987, between GMAC and Major Fleet.	N/A
10.54**	Contribution Agreement dated as of October 6, 1997 between the Company, Bruce Bendell and Doron Cohen.	N/A
10.55**	Letter of Commitment dated March 16, 1998 from Falcon Financial, LLC to Major Auto Acquisition, Inc.	N/A
10.56****	Security Agreement, dated May 14, 1998, made by Major Acquisition Corp., Major Automotive Realty Corp., and Falcon Financial, LLC.	N/A
10.57****	Guarantee, dated as of May 14, 1998, made by Fidelity Holdings, Inc. in favor of Falcon Financial, LLC.	N/A
10.58****	Amended and restated secured promissory note, dated may 14, 1998 and between Major Acquisition Corp., and Falcon Financial, LLC.	N/A
10.59***	Consulting Agreement among Fidelity Holdings, Inc., Major Automotive Group, Inc. and Clemont Investors Ltd., dated October 1, 1998.	N/A
10.60******	Placement Agent Agreement, dated as of January 25,1999, between Fidelity Holdings, Inc. and The Zanett Securities Corporation, Claudio Guazzoni, David McCarthy, and Tony Milbank	N/A
10.61******	Securities Purchase Agreement dated as of January 25,1999, by and among Fidelity Holdings, Inc., Computer Business Sciences, Inc., Zanett Lombardier, Ltd., Goldman Sachs Performance Partners, L.P., Goldman Sachs Performance Partners, (Offshore) L.P., David McCarthy and Bruno Guazzoni.	N/A
10.62******	Registration Rights Agreement dated as of January 25,1999, by and among Fidelity Holdings, Inc., Zanett Lombardier, Ltd., Goldman Sachs Performance Partners, L.P., Goldman Sachs Performance Partners, (Offshore) L.P., David McCarthy and Bruno Guazzoni.	N/A
11.1	Statement re: computation of per share earnings.	--
16.1*****	Letter from Peter C. Cosmas Co., CPAs, dated February 9, 1999.	N/A
21.1 *	List of Subsidiaries of the Company, incorporated by reference to Exhibit 22.1 of Company's Registration Statement on Form 10-SB, as amended, filed with the Securities and Exchange Commission on March 7, 1997.	N/A
27.1	Financial Data Schedule.	--

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* Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's registration statement on Form 10-SB (File No. 0-29182).

** Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's annual report on Form 10-KSB for the year ended December 31, 1997 (File No. 0-29182)

***Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's quarterly report on Form 10-QSB for the quarter ended September 30, 1998 (File No. 0-29182)

**** Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's current report on Form 8-K, dated May 14, 1998. (File No.0-29182).

***** Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's current report on form 8-K, dated February 5, 1999. (File No.0-29182).

****** Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's current report on form 8-K, dated January 26, 1999. (File No.0-29182).

(b) **Reports on Form 8-K**

During the last quarter of Fiscal 1998, the Company did not file any Reports on Form 8-K.

Signatures

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fidelity Holdings, Inc.

Dated: April 13, 1999

By:/s/ Doron Cohen
Doron Cohen, President

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Doron Cohen Doron Cohen	President, Treasure and Director	April 13, 1999
/s/ Bruce Bendell Bruce Bendell	Chairman of the Board and Chief Executive Officer	April 13, 1999
/s/ David Edelstein David Edelstein	Director	April 13, 1999
/s/ Richard L. Feinstein Richard L. Feinstein	Chief Financial Officer	April 13, 1999
/s/ James Wallick James Wallick	Director	April 13, 1999
/s/ Jeffrey Weiner Jeffrey Weiner	Director	April 13, 1999

Report of Independent Certified Public Accountants

To the Board of Directors
Fidelity Holdings, Inc.

We have audited the consolidated balance sheet of Fidelity Holdings, Inc. and subsidiaries as of December 31, 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not examine the financial statements of 786710 Ontario Limited, a wholly-owned subsidiary, which statements, after intercompany eliminations, reflect total assets of $183,132 as of December 31, 1998 and total revenue of $1,088,852 in 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 786710 Ontario Limited is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fidelity Holdings, Inc. and subsidiaries at December 31, 1998, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

BDO Seidman, LLP

New York, New York

March 20, 1999

Report of Independent Certified Public Accountants

To the Board of Directors
Fidelity Holdings, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Fidelity Holdings, Inc. and subsidiaries for the year ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not examine the financial statements of Major Fleet & Leasing Corp. and 786710 Ontario Limited, both wholly-owned subsidiaries, which statements, after intercompany eliminations, reflect total revenue of $953,033 in 1997 as adjusted for discontinued operations. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Major Fleet & Leasing Corp. and 786710 Ontario Limited, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Fidelity Holdings, Inc. and subsidiaries for the year ended December 31, 1997 in conformity with generally accepted accounting principles.

Peter C. Cosmas Co., CPA's

New York, New York

March 31, 1998

Fidelity Holdings, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 1998	
Assets	
Current:	
Cash and cash equivalents	$ 820,832
Net investment in direct financing leases, current	498,418
Accounts receivable	4,836,699
Inventories	18,999,822
Net assets held for sale	7,074,164
Other current assets	444,797
Total current assets	32,674,732
Net investment in direct financing leases, net of current portion	785,023
Property and equipment, net	4,782,794
Excess of costs over net assets acquired	10,306,950
Notes receivable – officer	799,819
Other assets	77,417
	$49,426,735
Liabilities and Stockholders' Equity	
Current liabilities:	
Notes payable – floor plan	$17,791,253
Notes payable – bank	450,000
Convertible debenture payable	600,000
Accounts payable	2,299,306
Accrued expenses	2,007,836
Current maturities of long-term debt	869,813
Customer deposits	697,087
Total current liabilities	24,715,295
Long-term debt, less current maturities	7,953,278
Due to employees	249,851
Other	54,795
Total liabilities	32,973,219
Commitments	
Stockholders' equity:	
Preferred stock, $.01 par value - 2,000,000 shares authorized; 1,150,000 shares issued and outstanding	11,500
Common stock, $.01 par value - 50,000,000 shares authorized; 8,036,514 shares issued and outstanding	80,365
Additional paid-in capital	14,799,800
Cumulative currency translation adjustment	(4,977)
Retained earnings	1,566,828
Total stockholders' equity	16,453,516
	$49,426,735

See accompanying notes to consolidated financial statements.

Fidelity Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

Year ended December 31,	1998	1997
Revenues:		
Sales	$98,578,970	$ 953,033
Cost of sales	84,121,863	-
Gross profit	14,457,107	953,033
Operating expenses	11,681,617	1,215,289
Interest expense	754,189	121,005
Operating income (loss) before income tax expense	2,021,301	(383,261)
Income tax expense	514,000	-
Income (loss) from continuing operations	1,507,301	(383,261)
Income (loss) from discontinued operations	(979,161)	752,400
Net income	$ 528,140	$ 369,139
Per common share:		
Net income (loss) from continuing operations:		
Basic	$ .20	$ (.06)
Diluted	.17	(.05)
Net income (loss) from discontinued operations:		
Basic	$ (.13)	$ .12
Diluted	(.11)	.10
Net income:		
Basic	$ .07	$ .06
Diluted	.06	.05
Average number of shares used in computation:		
Basic	7,336,794	6,454,350
Diluted	8,980,904	7,550,546

See accompanying notes to consolidated financial statements.

Fidelity Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1998 and 1997

	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Currency translation adjustment	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 1997	250,000	$ 2,500	6,279,200	$62,792	$ 4,509,108	$ 669,549	$ 264	$ 5,244,213
Issuance of common stock pursuant to exercise of warrants	-	-	523,000	5,230	648,520	-	-	653,750
Effect of stock compensation charge	-	-	93,500	935	256,665	-	-	257,600
Net income	-	-	-	-	-	369,139	-	369,139
Translation adjustment	-	-	-	-	-	-	33	33
Balance, December 31, 1997	250,000	2,500	6,895,700	68,957	5,414,293	1,038,688	297	6,524,735
Issuance of preferred stock for acquisition of Major Automotive Group	900,000	9,000	-	-	5,991,000	-	-	6,000,000
Issuance of common stock for services and equipment	-	-	1,140,814	11,408	3,394,507	-	-	3,405,915
Net income	-	-	-	-	-	528,140	-	528,140
Translation adjustment	-	-	-	-	-	-	(5,274)	(5,274)
Balance, December 31, 1998	1,150,000	$11,500	8,036,514	$80,365	$14,799,800	$1,566,828	$(4,977)	$16,453,516

See accompanying notes to consolidated financial statements.

Fidelity Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year ended December 31,	1998	1997
Cash flows from operating activities:		
Net income	$ 528,140	$ 369,139
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of intangible assets	477,504	343,744
Depreciation	514,780	495,118
Deferred income taxes	-	159,000
Noncash item – stock-based compensation	739,434	257,600
(Increase) decrease in assets:		
Net investment in direct financing leases	(622,294)	118,204
Notes receivable	-	(5,741)
Accounts receivable	(767,119)	(1,471,082)
Inventories	1,698,176	(110,655)
Customer deposits	11,730	-
Other assets	414,668	(261,310)
Increase (decrease) in liabilities:		
Accounts payable	(94,339)	32,689
Accrued expenses	292,987	(121,349)
Floor plan notes payable	(2,892,917)	-
Accrued income taxes	-	(4,378)
Deferred revenue	(38,937)	5,161
Due to affiliate	802,859	(102,097)
Net cash provided by (used in) operating activities	1,064,672	(295,957)
Cash flows from investing activities:		
Additions to property and equipment	(61,694)	(708,108)
Acquisition of Major Automotive Group, net of cash acquired	(1,018,432)	-
Net cash used in investing activities	(1,080,126)	(708,108)
Cash flows from financing activities:		
Line of credit	300,000	150,000
Proceeds from long-time debt	429,599	416,431
Payments of long-term debt	-	(573,444)
Proceeds from issuance of common stock and exercise of warrants, net of expenses	-	653,750
Decrease in notes payable	(109,080)	-
Proceeds from convertible debentures	600,000	-
Proceeds from employee	249,851	-
Increase in due from shareholders	(689,699)	-
Net cash provided by (used in) financing activities	780,671	646,737
Effect of exchange rates on cash	(5,274)	33
Net increase (decrease) in cash and cash equivalents	759,943	(357,295)
Cash and cash equivalents, beginning of year	60,889	574,486
Cash and cash equivalents, end of year	$ 820,832	$ 217,191
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 624,222	$ 121,092
Income taxes	2,846	16,809

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Nature of Business

Fidelity Holdings, Inc. (the "Company") was incorporated under the laws of the State of Nevada on November 7, 1995. The Company is structured as a holding company that has two divisions, an automotive division and a technology division, which includes computer telephony and telecommunication operations and plastics and utility operations. On December 16, 1998, the Board of Directors voted to divest themselves of all nonautomotive activities. Therefore, the accompanying financial statements have reflected those activities as discontinued operations.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the account of Fidelity Holdings, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts, transactions and profits have been eliminated.

(c) Earnings per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", applicable for financial statements issued for periods ending after December 15, 1997. As required, the Company adopted SFAS No. 128 for the year ended December 31, 1997 and restated all prior period earnings per share figures. The Company has presented basic and diluted earnings per share. Basic earnings per share excludes potential dilution and is calculated by dividing income available to common stockholders by the weighted average number of outstanding common shares. Diluted earnings per share incorporates the potential dilutions from all potential dilutive securities that would have reduced earnings per share.

(d) *Cash Equivalents*

Cash equivalents consist of highly liquid investments, principally money market accounts, with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost which approximates market value.

(e) *Inventories*

New vehicle inventories are valued at the lower of cost or market, with cost determined on a last-in, first-out basis. Used vehicle and vehicles held for lease inventories are valued at the lower of cost or market, with cost determined on a specific identification basis. Parts and accessories inventories are also valued at the lower of cost or market, with cost determined on the first-in, first-out method.

(f) *Property and Equipment*

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the assets, ranging from three to forty years. Depreciation of leased equipment is calculated on the cost of the equipment, less an estimated residual value, on the straight-line method over the term of the lease. Maintenance and repairs are charged to operations as incurred. When property and equipment are sold or otherwise disposed of, the asset cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is included in the results of operations.

(g) *Revenue Recognition*

Revenues and costs are recognized upon delivery of the vehicle to the customer. At time of delivery, all financing arrangements between and among the parties have been concluded. The Company records income from direct financing leases based on a constant periodic rate of return on the net investment in the lease. Income earned from operating lease agreements is recorded evenly over the term of the lease.

(h) *Foreign Currency Translation*

The Company translates the assets and liabilities of its foreign subsidiaries at the exchange rates in effect at year-end. Revenues and expenses are translated using exchange rates in effect during the year. Gains and losses from foreign currency translation are credited or charged to cumulative currency translation adjustment included in stockholders' equity in the accompanying consolidated balance sheets.

(i) *Use of Estimates in Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management's estimates and assumptions.

(j) *Excess of Costs Over Net Assets Acquired*

The excess of costs over fair value of net assets of businesses acquired is amortized on a straight-line basis from five to forty years. Amortization expense was $477,504 and $303,233 for the years ended 1998 and 1997, respectively.

(k) *Impairment of Long-Lived Assets*

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 requires the Company to review the recoverability of the carrying amounts of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable.

In the event that facts and circumstances indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to fair value is required. Fair value may be determined by reference to discounted future cash flows over the remaining useful life of the related asset. Such adoption did not have a material effect on the Company's consolidated financial position or results of operations.

(l) Fair Value Disclosures

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, notes and accounts receivable, inventories, assets held for sale, accounts payable, accrued expenses, and due to affiliates approximate fair value because of the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt, including the current portion, is estimated based on current rates offered to the Company for debt of the same remaining maturities.

(m) Stock Options

The Company accounts for its stock options in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-based Compensation". Had the Company determined compensation cost based on fair value at the grant date for stock options under SFAS No. 123, the effect would have been immaterial.

(n) *Impact of Recently Issued Accounting Standards*

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards for derivative instruments. The Company has not in the past nor does it anticipate that it will engage in transactions involving derivative instruments which will impact the financial statements.

Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", requires an entity to expense all software development costs incurred in the preliminary project stage, training costs and data conversion costs for fiscal years beginning after December 15, 1998. The Company believes that this statement will not have a material effect on the Company's accounting for computer software costs.

Statement of Position 98-5, "Accounting for Start-up Costs", requires an entity to expense all start-up related costs as incurred for the fiscal years beginning after December 15, 1998. The Company believes that this statement will not have a material effect on the Company's accounting for start-up costs.

2. Accounts Receivable

The Company evaluates its accounts receivable on a customer-by-customer basis and has determined that no allowance for doubtful accounts was necessary at December 31, 1998.

3. Notes Receivable – Officers/ Stockholders

The Company holds notes in the amount of $799,819, including accrued interest, at December 31, 1998. The notes bear interest at a rate of 5-7/8% per annum.

4. Net Investment in Direct Financing Leases

Components of the net investment in direct financing leases are as follows:

December 31, 1998	
Total minimum lease payments to be received	$1,348,502
Estimated residual value of leased property	312,805
Unearned income	(225,425)
	1,435,882
Less: Lease income receivable included in accounts receivable	152,441
Net investment	$1,283,441

Future minimum lease payments receivable at December 31, 1998 are as follows:

Year ending December 31,	Amount
1999	$ 498,418
2000	412,995
2001	258,976
2002	76,758
2003	36,294
Total	$1,283,441

5. Inventories

Inventories consist of the following:

December 31, 1998	
New automobiles	$ 4,147,351
New trucks and vans	7,800,692
Used automobiles and trucks	6,562,388
Parts and accessories	510,492
Other	30,495
	19,051,418
Less: LIFO reserve	(51,596)
	$18,999,822

6. Property and Equipment

Property and equipment consist of the following:

December 31, 1998	
Land	$2,400,000
Building	1,000,000
Leasehold improvements	924,600
Furniture and fixtures	528,812
Equipment	1,098,340
	5,951,752
Less: Accumulated depreciation and amortization	1,168,958
	$4,782,794

7. Income Taxes

The Company accounts for income taxes using the asset and liability method whereby deferred assets and liabilities are recorded for differences between the book and tax carrying amounts of balance sheet items. Deferred liabilities or assets at the end of each period are determined using the tax rate expected to be in effect when the taxes are actually paid or recovered. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits that are not expected to be realized. The effects of changes in tax rates and laws on deferred tax assets and liabilities are reflected in net income in the period in which such changes are enacted.

The provision for taxes on income is as follows:

Year ended December 31,	1998	1997
Federal:		
Current	$302,000	$ -
Deferred	-	127,000
State:		
Current	212,000	-
Deferred	-	32,000
Total	$514,000	$159,000

The reconciliation between the amount computed by applying the Federal statutory rate to income before income taxes and the actual income tax expense was as follows:

Year ended December 31,	**1998**	1997
Amount using the statutory Federal tax rate	**$ 348,000**	$180,000
State income tax, net of Federal tax benefit	**140,000**	21,000
Utilization of tax loss carryforwards	**(102,000)**	-
Goodwill amortization	**155,000**	-
Other, net	**(27,000)**	(42,000)
Provision for taxes on income	**$ 514,000**	$159,000

The tax effect of temporary differences resulted in deferred tax liabilities as follows:

December 31,	**1998**	1997
Revenue and expenses of consolidated subsidiary recognized on the cash basis for tax purposes, resulting in a timing difference	**$ -**	$112,974
Depreciation	**-**	42,015
Other	**-**	4,011
	$ -	$159,000

8. Secured Line of Credit

The Company has two lines of credit ("Line") with Marine Midland Bank (the "Bank") for $1,500,000. The interest rate is a variable rate based on the Bank's prime rate of interest. Interest is payable monthly. At December 31, 1998, the rate was 9%.

The Line is collateralized by a first security interest in and UCC filing on all assets of Fidelity Holdings, Inc. and the personal guarantees of the majority stockholders, Bruce Bendell and Doran Cohen, each of whom will be limited to 50% of the total obligation to the Bank.

As of December 31, 1998, the Company owes $450,000 against the Line.

9. 10% Convertible Subordinated Debentures

During April 1998, the Company issued $600,000 of 10% convertible subordinated debentures. The debentures are due in June 1999 and interest is paid semi-annually. If conversion takes place during January and April 1999, then the debenture converts into common stock at the price of $2.94 a share. After April 1999, the debenture converts into common stock at half closing price, but not less than $2.50 a share. The due date may be extended to April 2000 upon certain conditions. During January 1999, $100,000 of debentures was converted into 34,000 shares of common stock.

10. Long-term Debt

Various lenders advance funds to the Company's leasing subsidiary in the form of notes payable to finance leased vehicles. Interest on each note is charged depending on the prime rate in effect at the time the vehicle is leased and remains constant over the term of the lease. Applicable rates at December 31, 1998 ranged between 8.75% and 9.5%. Equal monthly installments are paid over the term of the lease (which can range from 12 to 60 months), together with a final balloon payment, if applicable. These loans are collateralized by the vehicles.

On May 14, 1998, the Company borrowed $7.5 million from Falcon Financial, LLC (an unrelated party) to finance the Major Auto Acquisition. The term of the loan is for fifteen years with interest at 10.18%. Payments of principal and interest of $81,423 are due monthly.

Leasing notes payable	$1,432,171
Falcon loan payable	7,390,920
	8,823,091
Less: Current portion	869,813
	$7,953,278

Maturities are as follows:

1999	$ 869,813
2000	746,721
2001	475,679
2002	433,825
2003	362,955
Thereafter	5,934,098
	$8,823,091

11. Business Combinations

On April 21, 1997, the Company and its wholly-owned subsidiary, Major Acquisition Corp., entered into a merger agreement (the "Merger Agreement") with Major Automotive Group, Inc. ("Major Auto") and its sole stockholder, Bruce Bendell, who is the Company's chairman and the beneficial owner of approximately 48.2% of the Company's outstanding common stock. Mr. Bendell owned all of the issued and outstanding shares of common stock of Major Chevrolet, Inc. ("Major Chevrolet") and Major Subaru, Inc. ("Major Subaru") and 50% of the issued and outstanding shares of common stock of Major Dodge, Inc. ("Major Dodge") and Major Chrysler, Plymouth, Jeep Eagle, Inc. ("Major Chrysler, Plymouth, Jeep Eagle"), which, collectively, operated five franchised automobile dealerships (collectively, the "Major Auto Group").

On May 14, 1998, pursuant to the Merger Agreement, Bruce Bendell contributed to Major Auto all of his shares of common stock of Major Chevrolet, Major Subaru, Major Dodge and Major Chrysler, Plymouth, Jeep Eagle. Major Acquisition Corp. then acquired from Bruce Bendell all of the issued and outstanding shares of common stock of Major Auto in exchange for shares of a new class of the Company's preferred stock. Major Acquisition Corp. purchased the remaining 50% of the issued and outstanding shares of common stock of Major Dodge and Major Chrysler, Plymouth, Jeep Eagle from Harold Bendell, Bruce Bendell's brother, for $4 million in cash pursuant to a stock purchase agreement. In addition, Major Acquisition Corp. acquired two related real estate components (the "Major Real Estate", defined hereinafter) from Bruce Bendell and Harold Bendell (collectively "the Bendells") for $3 million.

The preferred stock issued to Bruce Bendell is designated as the "1997-MAJOR Series of Convertible Preferred Stock." It has voting rights and is convertible into the Company's common stock (the "Common Stock"). The number of shares of Common Stock into which the new class is convertible is 1.8 million shares. The foregoing acquisitions from Major Auto and Harold Bendell are collectively referred to herein as the "Major Auto Acquisition".

To finance the cash portion of the Major Auto Acquisition, aggregating $7 million ($4 million for Harold Bendell and $3 million to purchase the Major Real Estate), Major Acquisition Corp. borrowed $7.5 million from Falcon Financial, LLC pursuant to a loan and security agreement dated May 14, 1998, for a 15 year term with interest equal to 10.18%. Prepayment is not permitted for the first five years, after which prepayment may be made, in full only, along with the payment of a premium.

The collateral securing the loan transaction includes the Major Real Estate and, subject to the interests of any current or prospective "floor plan or cap loan lender," the assets of Major Acquisition Corp. Major Acquisition Corp. is required to comply with certain financial covenants related to net worth and cash flow. In addition, the Company provided an unconditional guarantee of the loan pursuant to a guarantee agreement dated May 14, 1998. This acquisition was treated as a purchase by Major Acquisition Corp.

The pro forma unaudited results of operations for the year ended December 31, 1998, combining the acquisition of Major Automotive Group, Inc. as though it was acquired by the Company as of January 1, 1998, are as follows:

Revenues	$148,000,000
Net income	841,000

12. Discontinued Operations

On December 16, 1998, the Company's Board of Directors decided to explore the possible divestiture or disposition by merger or consolidation or otherwise, of the Company's nonautomotive assets. The Company is currently seeking a buyer for its nonautomotive assets. Although it is difficult to predict, the Company expects to sell its nonautomotive assets during 1999. Nonautomotive operations are reported as discontinued, and the consolidated financial statements have been reclassified to segregate the net assets and operating results of these businesses.

The Company expects to realize the book value of the nonautomotive assets. The amounts the Company will ultimately realize could differ materially in the near term from the amounts assumed in arriving at the gain or loss on disposal of the discontinued operation. Summary operating results of the discontinued operation are as follows:

December 31,	**1998**	1997
Revenues	**$1,088,852**	$2,909,251
Net income (loss)	**(979,161)**	752,400

The results for the nonautomotive assets have been classified as discontinued operations for all periods presented in the consolidated statements of operations. The assets and liabilities of discontinued operations have been classified in the consolidated balance sheets as "net assets held for sale". Discontinued operations have not been segregated in the consolidated statements of cash flows and, therefore, amounts for certain captions will not agree with the respective consolidated statements of operations and consolidated balance sheets.

13. Governmental Regulations

Substantially all of the Company's facilities are subject to Federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Company expect such compliance to have, any material effect on the financial condition or results of operations of the Company. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable Federal and state requirements.

14. Commitments

Compensation Agreements

Mr. Bruce Bendell, Chairman of the Board of the Company, entered into a consulting agreement effective January 1, 1996. The consulting agreement provides for base annual compensation of $150,000 and provides for increases in such base compensation and for performance-based and discretionary bonuses.

Mr. Doran Cohen, President and Treasurer of the Company, entered into an employment agreement effective January 1, 1996. The agreement provides for base annual compensation of $150,000 and provides for increases in such base compensation and for both performance-based and discretionary bonuses.

In 1997, compensation paid and accrued to Mr. Cohen amounted to $150,000. Mr. Bendell waived his compensation in 1997. Neither Mr. Bendell nor Mr. Cohen has any stock options, stock appreciation rights ("SAR") or deferred compensation.

Sales of Customer Installment Contracts

The Company's leasing subsidiary has sold customer installment contracts to some financing institutions with no recourse and to others with full recourse. In the event of default on recourse loans, the Company would pay the financing institution a predetermined amount and would repossess and sell the vehicle. No accrual has been made for possible losses since, in management's opinion, on an aggregate basis, the Company could sell the repossessed automobiles for amounts in excess of outstanding liabilities. The amount that must be paid by the Company in the event of default is $1,432,171.

Legal Proceedings

On November 22, 1996, the Company and its wholly-owned subsidiaries, Computer Business Sciences, Inc. and Info Systems, filed an action in the New York Supreme Court, Queens County against Michael Marom ("Marom") and M. M. Telecom Corp. ("MMT"). The Company and its subsidiaries are seeking damages of $5,000,000 for breach of contract, libel, slander, disparagement, violation of copyright laws, fraud and misrepresentation.

On February 4, 1997, the defendants filed a counterclaim against the Company and its subsidiaries seeking damages of $50,000,000 of compensatory and punitive damages for breach of contract and violation of the Lanham Act. The defendants allege in their counterclaim that the Company, Computer Business Sciences and Info Systems misappropriated and altered software developed by Marom in order to prevent competition with the Company's Talkie-Globe. Both parties to the litigation have filed responses to the counterclaims.

The Company, Computer Business Sciences, Inc. and Info Systems have filed a Motion to Dismiss Marom and MMT's counterclaims for failure to state a cause of action. While there was minimum opposition, Marom and MMT did cross move to amend their answer and counterclaims to include thirteen causes of action. The Company has submitted opposition to this amendment attempting to show that the proposed amended counterclaims have no merit. All papers in the action have been recently submitted and the Company is awaiting a decision from the Court. The Company and its litigation counsel believe that the Company and its wholly-owned subsidiaries have a good basis to oppose Marom's and MMT's counterclaims.

On May 7, 1997, the Company and its wholly-owned subsidiary, Computer Business Sciences, filed an action in the New York Supreme Court, New York County, against Network America, Inc. ("Network"). The Company and its subsidiary are seeking damages of $1,000,000 for breach of contract, misrepresentation, fraud and tortuous interference with the Company's business and operations. The Company and its subsidiary allege in their complaint that the information and representations provided to the Company by Network, on the basis of which the Company entered into a Letter of Intent to acquire Network, were intentionally fraudulent and misleading. On August 18, 1997, Network filed an answer which denied the allegations and a counterclaim seeking damages of $2,000,000 for the Company's alleged misappropriation of proprietary information and violation of a Noncompetition Agreement entered into by the parties to the litigation. The litigation has been settled without any financial contribution by the Company.

The Company has received notice of a claim by Mr. Daniel Tepper of Los Angeles, California. Mr. Tepper had contacted the Company claiming to have acquired, through foreclosure of a security interest, 12,000 shares of its common stock originally issued to Progressive Polymerics International, Inc. ("PPYM") in a private placement. He requested that the Company issue certificates representing the shares in question that did not bear a legend restricting their transfer, on the basis that the shares had been held by his predecessor in interest for a length of time sufficient to allow their unrestricted resale in accordance with Rule 144 promulgated under the Securities Act. The Company was advised by counsel that it should not issue the unlegended share certificates requested by Mr. Tepper unless he showed that he acquired the relevant shares in a transaction allowing him to take advantage of his predecessor's holding period for the shares in question.

The Company's legal counsel contacted Mr. Tepper in November 1997, seeking to verify details of the claimed foreclosure in order to verify Mr. Tepper's eligibility to take advantage of his predecessor's holding period for the shares in question. Mr. Tepper never responded to that inquiry. Instead, on December 23, 1997, Mr. Tepper, acting through counsel, asserted a number of claims against the Company, including claims arising out of transactions dating back to the 1995 acquisition by the Company of the armored conduit patents.

The Company has been advised by counsel that Mr. Tepper's claims are without merit. However, one of the allegations made by Mr. Tepper prompted an inquiry by the Company into one of the circumstances of that transaction.

On October 15, 1996, the Company, Progressive Polymerics, Inc. ("Progressive") and PPYM signed a First Amendment to the Patent Sale and Purchase Agreement (the "First Amendment") between them dated November 14, 1995. The First Amendment, which was dated September 30, 1996, settled a claim by the Company against Progressive and PPYM related to undisclosed additional development costs related to the armored conduit patents. The Company commenced litigation against Progressive and PPYM in which it sought a reduction in the purchase price for the armored conduit patents. The First Amendment changed the purchase price from $500,000 in cash to the sum of (i) $100,000 in cash, (ii) 160,000 shares of the Company's common stock and (iii) warrants to purchase a further 160,000 shares of the Company's common stock.

The Company was advised by the President of PPYM, Terrence Davis, prior to signing the First Amendment, that the First Amendment had been approved by a majority of the shareholders of PPYM. However, Mr. Tepper's claim included an assertion that the version of the First Amendment that PPYM's shareholders approved failed to include a provision, added just prior to signing, giving the Company the right to repurchase 80,000 of the 160,000 shares issued to PPYM.

Upon receipt of Mr. Tepper's claim, the Company contacted Mr. Davis, who confirmed on January 5, 1998 that the version of the First Amendment approved by PPYM's shareholders did not include the repurchase provision. The reason given by Mr. Davis was that, as President of PPYM, he believed he had the authority to agree to the repurchase provision on PPYM's behalf without shareholder approval.

The Company has accordingly revived its legal action that was pending against PPYM and Progressive at the time of the First Amendment, in which it sought modification of the purchase price due pursuant to the Patent Sale and Purchase Agreement with PPYM.

The Company, assuming it is successful in the prosecution of the litigation as just described, will then seek to recover damages from PPYM and Progressive related to the misrepresentations concerning additional development expenditures required in connection with the patents covered by the Patent Sale and Purchase Agreement. These misrepresentations were the subject of the legal action referred to in the preceding paragraph.

While it is not possible to determine the ultimate disposition of these proceedings, the Company believes that the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

Various claims and lawsuits arising in the normal course of business are pending against the Company. The results of such litigation are not expected to have a material or adverse effect on the Company's combined financial position or results of operations.

15. Related Party Transactions

Amounts due affiliates are amounts owed by the Company's leasing subsidiary for advances made in the ordinary course of business from various entities which are wholly-owned by the subsidiaries' former stockholders. The advances are in the form of noninterest-bearing obligations with no specified maturity dates. At December 31, 1998, the amount due from affiliates of $268,845 was included in accounts receivable.

Marcum & Kliegman LLP, an accounting firm of which a director is a member, charged the Company approximately $48,000 in fees for accounting services for the year ended December 31, 1998.

All sales of used cars to affiliates were made at wholesale cost plus related fees incurred by Major Auto and, therefore, resulted in no profit to Major Auto. Total sales revenue and unit counts were estimated to be less than 5% of total sales.

16. Warrants and Options

(a) Warrants

In October 1996, the Company revised the patent purchase agreement. Under the amendment, the purchase price was changed from $500,000 in cash to a combination of $100,000 in cash and the balance in 80,000 unregistered units of the Company's securities. Each unit consisted of 2 shares of common stock and 2 warrants, each warrant being for the purchase of 1 share of the Company's common stock at an exercise price of $3.125 per share exercisable for one year which expired in October 1997.

(i) In March 1996, the Company issued to Nissko Telecom, Inc. and its investors warrants to purchase 1,500,000 shares of the Company's common stock at a price of $1.25 per share. In 1997, warrants to purchase 523,000 shares were exercised, leaving a balance of 977,000 outstanding. Of this amount, Class B warrants for 750,000 shares, which were exercisable through March 19, 1998, were unexercised by that date and, therefore, lapsed and warrants to purchase 144,714 shares of the Company's common stock were exercised in December 1998.

(ii) In addition, the Company issued warrants for the purchase of 100,000 shares, in connection with the management agreement entered into when the Company acquired Major Fleet & Leasing Corp.

The total number of warrants outstanding at December 31, 1998 was 182,286, exercisable at $1.25 per share.

(b) Options

As required by SFAS 123, the Company has determined the pro forma information as if the Company had accounted for stock options granted since January 1, 1996, under the fair value method of SFAS 123. An option pricing model similar to the Black-Scholes was used with the following weighted average assumptions used for grants in the years 1997 and 1996, respectively; expected volatility of 80 percent; risk-free interest rate of 6% and 5.5%, respectively and expected lives of 5 years. The pro forma effect of these options on net earnings was not material.

In consideration for certain consulting services related to the acquisition of the Major Auto Group, the Company has issued options to purchase 50,000 shares of the Company's common stock for $4.50 per share, exercisable until May 2002. At December 31, 1998, no options were exercised.

17. Preferred Stock

The Company has 2,000,000 shares of undesignated preferred stock authorized; during 1996, the Company designated 250,000 shares as the 1996 - Major Series. The shares of the 1996 – Major Series have voting rights and vote with the common stock and not as a separate class. Each share entitles the holder to two votes per share reflecting the underlying conversion rate. The shares of the 1996 – Major Series are convertible, with each share converting into two shares of common stock. In the event that a dividend is declared on the common stock, a dividend of twice the per share dividend on the common stock must be declared on the 1996 – Major Series, again reflecting the underlying conversion rate. The shares are redeemable after December 31, 2001 at a price of $15.87 per share. The liquidation preference is $10 per share or a total of $2,500,000. Pursuant to an agreement between the Company and the preferred stockholders, the right of rescission (under certain circumstances), which was a part of the original agreement, has been rescinded.

On May 14, 1998, the Company designated 900,000 shares as the 1997 – Major Series of Convertible Preferred Stock (the "1997 Preferred Stock"). The shares of the 1997 Preferred Stock have voting rights and vote with the common stock and not as a separate class. Each share entitles the holder to two votes per share reflecting the underlying conversion rate. The shares of 1997 Preferred Stock are convertible, with each share converting into two shares of common stock if the market value is equal to or greater than $6,000,000 for the 1,800,000 shares of common stock. If the 1,800,000 shares of common stock has a market value of less than $6,000,000, then additional shares of common stock will be issued to equal a market value of $6,000,000. In the event that a dividend is declared on the common stock, a dividend of twice the per share dividend of common stock will be paid on the 1997 Preferred Stock. The 1997 Preferred Stock has a liquidation value of $6,000,000. On the fifth anniversary, the 1997 Preferred Stock automatically converts into shares of common stock.

Common Stock

In 1996, the Company issued to various employees, in recognition of their services, 4,200 shares of common stock. The value assigned to each of the relevant issues was $2.50 per share based on a discount determined by management to reflect the lack of marketability due to the fact that the shares are restricted securities.

The fair values of additional shares issued in connection with employment agreements will be charged as compensation expense (and capital in excess of par credited) ratably during each month of employment over which the shares will be earned, i.e., vest. Vesting periods are from three to five years from date of employment. Such common stock was issued in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act.

Pursuant to the oral agreements entered into in January 1996, in connection with investment banking marketing services rendered to the Company, the Company in October 1996, upon the completion of these services, issued 200,000 shares of its common stock. Such common stock was issued and sold in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act.

The warrants issued in connection with the management agreement referred to in Note 14 are convertible into restricted shares at $1.25 per share, were separate and distinct from the Major Fleet acquisition and were performance - based with no registration rights and could have been terminated. Therefore, a lower value was assigned to reflect a discount for marketability and risk.

In 1997, the Company issued 67,000 shares valued at $2.80 per share which was considered to be the fair value in connection with legal and financial services rendered in connection with the acquisition of the Major Auto Group. The $187,600 value of the shares issued has been deferred and included in other assets, which amount was charged as part of the cost of acquisition at closing.

During 1998, the Company issued 1,140,814 shares of common stock at estimated market prices for telephony territories and equipment and services. An aggregate of 458,000 shares valued at $1,494,140 was issued for telephony territories and equipment, while an aggregate of 682,814 shares valued at $1,911,775 was issued for services.

18. Subsequent Events

In January 1999, Fidelity Holdings and Major Auto entered into an agreement with Universal Ford, Inc. to acquire Universal Kia, a Kia automobile dealership located in Long Island City, New York. The purchase price of Universal Kia is based on Universal Kia's historical operating results and is expected to aggregate less than $200,000.

Also in January 1999, the Company signed a Letter of Intent to acquire, for $1,250,000, 80% of the Long Island, New York based Major of the Five Towns (formerly Nissanland and Kialand), currently doing business as Major Nissan and Major Kia, that is owned by the Company's Chairman and CEO, Bruce Bendell. This dealership has three separate showroom locations. Nicholas Guadagno, who is President and a 20% shareholder of Major of the Five Towns, will continue to manage day-to-day operations after the completion of this acquisition.

In February 1999, the Company signed a contract to acquire, for $800,000, subject to certain adjustments, in cash and stock, Compass Lincoln-Mercury and Compass Dodge, both of which are based in Essex County, New Jersey.

In January 1999, the Company and its subsidiary, Computer Business Sciences, Inc. ("CBS") entered into a Securities Purchase Agreement with certain purchasers named therein (the "Purchasers"), pursuant to which the Company and CBS agreed to sell up to 2,750 Units (the "Units"), each Unit consisting of (a) in the first tranche, (i) a 12% Convertible Debenture of the Company in the principal amount of $1,000, convertible on certain terms and conditions into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), (ii) 36.3636 shares of Common Stock, (iii) warrants (the "Warrants") to acquire 83.3333 shares of Common Stock and (iv) warrants (the "CBS Warrants") to acquire 25.4545 shares of common stock, par value $0.01 per share, of CBS (the "CBS Shares"), (b) in the second tranche, (i) $1,563.64 and (ii) Warrants to acquire 130.3030 shares of Common Stock, and (c) in the third tranche, (i) Debentures in an aggregate principal amount of $1,563.64 and (ii) Warrants to purchase 130.3030 shares of Common Stock. The shares of Common Stock issuable upon conversion of or otherwise pursuant to the Debentures are referred to herein as the "Conversion Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares." The Company closed on the first tranche of $2.75 million and issued to Purchasers, in the aggregate, Debentures in the face amount of $2.75 million, 100,000 shares of Common Stock, Warrants to acquire 229,167 shares of Common Stock and CBS Warrants to acquire 70,000 CBS Shares. Consummation of the second and third tranches is conditioned upon, among other things, achievement by the Company and CBS of certain mutually agreeable milestones and, under certain conditions, approval by the shareholders of Fidelity. The Debentures are convertible into Common Stock of the Company at any time after the date of issue (subject to certain volume limitations). Upon conversion, holders will be entitled to receive a number of shares of Common Stock determined by dividing the outstanding principal amount of the Debentures by a conversion price equal to the lesser of 90% the average closing bid prices

for the Common Stock during a defined period prior to conversion, and $4.20 (but in no event less than $3.00, and subject to adjustment upon the occurrence of certain dilutive events). The Warrants are exercisable for shares of Common Stock of the Company. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $4.20 per share. The Warrants will expire on January 25, 2004. The CBS Warrants are exercisable for shares of Common Stock of CBS. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $0.001 per share. The CBS Warrants will expire on January 25, 2004. In connection with this transaction, the Company also entered into a Registration Rights Agreement with the Purchasers under which the Company is required to file a registration statement on Form S-3 by March 11, 1999, subject to certain specified exceptions, which have been met, covering resales of the Conversion Shares and the Warrant Shares (the "Resale Registration Statement"). Under the Registration Rights Agreement, the Company may be required to make certain payments to holders of the Debentures as partial damages if, among other things, the Resale Registration Statement has not been declared effective by the Securities and Exchange Commission on or before July 9, 1999, subject to certain specified exceptions. In connection with the placement of the Debentures, the Company paid to Zanett Securities Corporation, the placement agent for the transaction (the "Placement Agent"), a fee and nonaccountable expense allowance of 6.9%, and the Company also issued to the Placement Agent and its assignees, 50,000 shares of the Company's Common Stock, 30,000 shares of CBS Common Stock and Warrants to purchase an aggregate of 114,583 shares of Common Stock at an exercise price equal to $4.20 per share.

Report of Independent Certified Public Accountants

Major Chevrolet, Inc. and Affiliates
Long Island City, New York

We have audited the accompanying combined statements of income and cash flows of Major Chevrolet, Inc. and Affiliates for the four and one-half months ended May 14, 1998 and the year ended December 31, 1997. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Major Chevrolet, Inc. and Affiliates for the four and one-half months ended May 14, 1998 and the year ended December 31, 1997, in conformity with generally accepted accounting principles.

BDO Seidman, LLP

New York, New York
March 20, 1999

Major Chevrolet, Inc. and Affiliates

Combined Statements of Income

	Four and one-half months ended May 14, 1998	Year ended December 31, 1997
Revenues:		
Sales	$50,276,561	$144,499,231
Cost of sales	43,743,891	126,855,734
Gross profit	6,532,670	17,643,497
Operating expenses	5,980,605	15,510,591
Interest expense	48,808	1,283,420
Operating income	503,257	849,486
Other income	18,172	255,918
Income before income taxes	521,429	1,105,404
Income taxes	42,320	169,813
Net income	$ 479,109	$ 935,591

See accompanying summary of accounting policies and notes to combined financial statements.

Major Chevrolet, Inc. and Affiliates

Combined Statements of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents

	Four and one-half months ended May 14, 1998	Year ended December 31, 1997
Cash flows from operating activities:		
Net income	$ 479,109	$ 935,591
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,430	64,470
Changes in assets – (increase) decrease in:		
Trade receivables	995,618	(468,521)
Inventories	(3,385,036)	10,462,590
Prepaid expenses and other current assets	(50,465)	(84,944)
Security deposits	(1,485)	5,007
Changes in liabilities – increase (decrease) in:		
Customer deposits	342,819	(885,914)
Accounts payable	(488,844)	613,255
Accrued expenses	(609,874)	1,511,257
Total adjustments	(3,176,837)	11,217,200
Net cash provided by (used in) operating activities	(2,697,728)	12,152,791
Cash flows from investing activities:		
Purchase of property, plant and equipment	(12,115)	(53,616)
Note receivable	675,396	(38,230)
(Purchase) proceeds from sale of lease and rental vehicles	(566,487)	3,505,516
Certificate of deposit	699,935	84,677
Net cash provided by investing activities	796,729	3,498,347
Cash flows from financing activities:		
Increase in (payment of) stockholder loans	(790,457)	164,677
Increase (decrease) in long-term debt	(2,093)	17,978
Increase (decrease) in floor plan notes payable	3,734,301	(14,348,333)
Increase in due from affiliates	(946,785)	-
S corporation distributions	-	(410,782)
Net cash provided by (used in) financing activities	1,994,966	(14,576,460)
Net increase in cash and cash equivalents	93,967	1,074,678
Cash and cash equivalents, beginning of period	1,424,915	350,237
Cash and cash equivalents, end of period	$ 1,518,882	$ 1,424,915
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 314,362	$ 1,323,866
Income taxes	129,681	89,732

See accompanying summary of accounting policies and notes to combined financial statements.

Major Chevrolet, Inc. and Affiliates

Notes to Combined Financial Statements

1. Summary of Accounting Policies

(a) Business and Principles of Combination and Reporting

Major Chevrolet, Inc. and Affiliates (the "Company") is a retailer of new and used vehicles, trucks, parts and accessories.

The financial statements consist of the combined operations of Major Chevrolet, Inc., Major Dodge, Inc., Major Chrysler Plymouth Jeep Eagle, Inc. ("Major CPJE"), and Major Subaru, Inc., all of which are under common control. All significant intercompany balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in quality financial institutions and, by policy, limits the amount of credit exposure in any one financial vehicle.

(d) Financial Instruments

The fair values of the financial instruments, including cash, cash equivalents, trade receivables, inventories, accounts payable, accrued expenses and notes payable on vehicle floor plan, approximate their carrying value because of the current nature of these instruments. It is not practical to determine the fair value of loans payable to stockholders because the repayment terms are subject to management's discretion.

(e) *Revenue and Cost Recognition*

Revenues and cost are recognized upon delivery of the vehicle to the customer. At time of delivery, all financing arrangements between and among the parties have been concluded.

(f) *Inventories*

New vehicle inventories are valued at the lower of cost or market, with cost determined on a last-in, first-out basis. Used vehicle inventories are valued at the lower of cost or market, with cost determined on a specific identification basis. Parts and accessories inventories are also valued at the lower of cost or market, with cost determined on the first-in, first-out method.

During 1998, total inventory quantities were reduced, resulting in a LIFO liquidation. The net income realized as a result of the inventory liquidation amounted to approximately $560,000.

(g) *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (ranging from 5 to 10 years). Leasehold improvements are depreciated using the straight-line method over their estimated useful lives, not to exceed the life of the lease.

(h) *Income Taxes*

The Company elected, with the consent of its stockholders, to be taxed as an S corporation under the provisions of the Internal Revenue Code (Sec. 1361) and New York State Franchise Tax Law. The stockholders are required to report the Company's taxable income or loss in their personal income tax returns; accordingly, such income taxes are not reflected in the combined financial statements. In addition, New York State imposes a corporate level tax, based upon the differential between corporate and individual tax rates, which has been provided for. The combined financial statements include a provision for the New York State tax and New York City income taxes since New York City does not recognize S corporation status.

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. There are no significant temporary differences; accordingly, no deferred tax calculation has been made.

(i) *Cash Equivalents*

The Company considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are carried at cost, which approximates market value and consists primarily of time deposits.

(j) *Certificates of Deposit*

The Company has two certificates of deposit with a financial institution which have initial maturities of one year and six months, respectively, that automatically renew on such maturity dates. The fair value of the certificates of deposit approximate their carrying value due to their short-term maturities.

(k) Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", in 1996. The Company reviews certain long-lived assets and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In that regard, the Company assesses the recoverability of such assets based upon estimated nondiscounted cash flow forecasts.

2. Acquisition by Fidelity Holdings, Inc.

On May 14, 1998, the Company was merged into Major Acquisition Corp., a wholly-owned subsidiary of Fidelity Holdings, Inc. ("Fidelity"). Pursuant to the merger agreement, Major Acquisition Corp. acquired all of the Company's shares of stock for $4 million in cash, the incurrence of $500,000 in merger-related expenses and the issuance of 900,000 shares of Fidelity's convertible preferred stock. Such shares are convertible, by their terms, into 1,800,000 shares of Fidelity's common stock.

3. Related Party Transactions

The Company rents its Dodge showroom premises from its stockholders. The agreement is on a month-to-month basis. Rent expense relating to this agreement amounted to $36,000 and $96,000 for the four and one-half months ended May 14, 1998 and the year ended December 31, 1997, respectively.

During 1996, the Company rented space for a used car lot from BHB Realty, LLP. The agreement was on a month-to-month basis. Rent expense relating to this agreement amounted to $90,000 and $240,000 for the four and one-half months ended May 14, 1998 and the year ended December 31, 1997, respectively.

The Company rents its Dodge and CPJE service centers from Bendell Realty, L.L.C. Bendell Realty, L.L.C. is owned by the stockholder of the Company. The rent expense amounted to approximately $45,000 and $120,000 for the four and one-half months ended May 14, 1998 and the year ended December 31, 1997, respectively.

4. Governmental Regulations

Substantially all of the Company's facilities are subject to Federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Company expect such compliance to have, any material effect on the financial condition or results of operations of the Company. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable Federal and state requirements.

5. Litigation

Various claims and lawsuits arising in the normal course of business are pending against the Company. The results of such litigation are not expected to have a material or adverse effect on the Company's combined financial position or results of operations.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

January 26, 1999
Date of Report (Date of earliest event reported)

FIDELITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Nevada	00029182	11-3292094
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

80-02 Kew Gardens Road, Kew Gardens, NY 11415
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code): 718/520-6500

PART II. OTHER INFORMATION

Item 5. OTHER EVENTS

On January 26, 1999, Fidelity Holdings, Inc., a Nevada corporation, ("Fidelity" or the "Company") closed on an initial $2.75 million financial transaction as part of an overall $11.35 million debt facility. The followingsummary of this transaction is qualified in its entirety by the terms of the related agreements and instruments filed herewith as exhibits to this Form 8-K.

The Transaction

On January 25, 1999, the Company and its wholly owned subsidiary, Computer Business Sciences, Inc., a Delaware corporation ("CBS") entered into aSecurities Purchase Agreement with certain purchasers named therein (the"Purchasers"), pursuant to which the Company and CBS agreed to sell up to 2,750 Units (the "Units"), each Unit consisting of (a) in the first tranche, (i) a 12% Convertible Debenture of the Company in the principal amount of One Thousand Dollars ($1,000) of the Company (the "Debentures"), convertible on certain termsand conditions into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), (ii) 36.3636 shares of Common Stock, (iii) warrants(the "Warrants") to acquire 83.3333 shares of Common Stock and (iv) warrants (the "CBS Warrants") to acquire 25.4545 shares of common stock, par value $0.01per share, of CBS (the "CBS Shares"), and (b), in the second tranche, (i) a Debenture in the principal amount of One Thousand Five Hundred Sixty-Three and64/100 Dollars ($1,563.64) and (ii) Warrants to acquire 130.3030 shares of Common Stock and (c) in the third tranche, (i) Debentures in an aggregateprincipal amount of One Thousand Five Hundred Sixty-Three and 64/100 Dollars ($1,563.64) and (ii) Warrants to purchase 130.3030 shares of Common Stock. Theshares of Common Stock issuable upon conversion of or otherwise pursuant to theDebentures are referred to herein as the "Conversion Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares."

The Company closed on the first tranche of $2.75 million and issued to the Purchasers, in the aggregate, Debentures in the face amount of $2.75 million, 100,000 shares of Common Stock, Warrants to acquire 229,167 shares of Common Stock and CBS Warrants to acquire 70,000 CBS Shares. Consummation of the second and third tranches is conditioned upon, among other things, achievement by the Company and CBS of certain mutually agreeable milestones and under certain conditions, approval by the shareholders of Fidelity.

The Debentures are convertible into Common Stock of the Company at any time after the date of issue (subject to certain volume limitations). Upon conversion, holders will be entitled to receive a number of shares of Common Stock determined by dividing the outstanding principal amount of the Debentures by a conversion price equal to the lesser of 90% of the average closing bid prices for the Common Stock during a defined period prior to conversion, and $4.20 (but in no event less than $3.00, and subject to adjustment upon the occurrence of certain dilutive events).

The Warrants are exercisable for shares of Common Stock of the Company. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $4.20 per share. The Warrants will expire on January 25, 2004.

The CBS Warrants are exercisable for shares of Common Stock of CBS. Upon exercise, holders will be entitled to receive shares of Common Stock for an exercise price of $0.001 per share. The CBS Warrants will expire on January 25, 2004.

In connection with this transaction, the Company also entered into a Registration Rights Agreement with the Purchasers under which the Company is required to file a registration statement on Form S-3 by March 11, 1999, subject to certain specified exceptions, covering resales of the Conversion Shares and the Warrant Shares (the "Resale Registration Statement"). Under the Registration Rights Agreement, the Company may be required to make certain payments to holders of the Debentures as partial damages if, among other things, the Resale Registration Statement has not been declared effective by the Securities and Exchange Commission on or before July 9, 1999, subject to certain specified exceptions.

The net proceeds to the Company after payment of closing fees and expenses is $2,455,250. In connection with the placement of the Debentures, the Company also issued to Zanett Securities Corporation, the placement agent for the transaction (the "Placement Agent"), and its assignees, 50,000 shares of the Company's Common Stock, 30,000 shares of CBS Common Stock and warrants to purchase an aggregate of 114,583 shares of Common Stock at an exercise price equal to $4.20 per share, which contain the same restrictions as the Warrants. All of the shares underlying the Placement Agent warrants must be included in the Resale Registration Statement.

Use of Proceeds

The Company intends to use the net proceeds from the Offering primarily for developmental activities in its telecommunications and plastics divisions, and also for working capital purposes of Fidelity and CBS, including the possible acquisition of additional car dealerships.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(C) Exhibits

The following exhibits, from which schedules and exhibits have been omitted and will be furnished to the Commission upon its request, are filed with this report on Form 8-K.

4.11 -- Form of Warrant

4.12 -- Form of CBS Warrant

4.13 -- Form of Debenture

10.60 -- Placement Agent Agreement, dated as of January 25,1999, between Fidelity Holdings, Inc. and The Zanett Securities Corporation, Claudio Guazzoni, David McCarthy, and Tony Milbank

10.61 -- Securities Purchase Agreement dated as of January 25,1999, By and among Fidelity Holdings, Inc., Computer Business Sciences, Inc., Zanett Lombardier, Ltd., Goldman Sachs Performance Partners, L.P., Goldman Sachs Performance Partners, (Offshore) L.P., David McCarthy

and Bruno Guazzoni.

10.62 -- Registration Rights Agreement dated as of January 25,1999, by and among Fidelity Holdings, Inc., Zanett Lombardier, Ltd., Goldman Sachs Performance Partners, L.P., Goldman Sachs Performance Partners, (Offshore) L.P., David McCarthy and Bruno Guazzoni.

SIGNATURE

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

FIDELITY HOLDINGS, INC.
(Registrant)

/s/ Doron Cohen

Doron Cohen, President

Dated: February 3, 1999

Exhibit 4.11

VOID AFTER 5:00 P.M., NEW YORK
CITY TIME, ON JANUARY 25, 2004
(UNLESS EXTENDED PURSUANT TO SECTION 2 HEREOF)

THIS WARRANT AND THE SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS THE SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR ANY SUCH OFFER, SALE OR TRANSFER IS MADE PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Date: January 25, 1999

Right to Purchase _____
Shares of Common Stock

FIDELITY HOLDINGS, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, _____ or its or his registered assigns is entitled to purchase from Fidelity Holdings, Inc., a Nevada corporation (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, _____ (_____) fully paid and nonassessable shares of the Company's Common Stock, par value $0.01 per share ("Common Stock"), at an exercise price per share equal to $4.20 (the "Exercise Price"). The number of shares of Common Stock purchasable hereunder (the "Warrant Shares") and the Exercise Price are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant and the other Warrants of the Company issued pursuant to that certain Securities Purchase Agreement, dated as of January 25, 1999, by and among the Company and the other signatories thereto (the "Securities Purchase Agreement") and/or that certain Placement Agency Agreement of even date herewith between the Company and The Zanett Securities Corporation (the "Placement Agency Agreement").

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the

"Exercise Agreement"), to the Company by 11:59 p.m., New York time on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon (i) payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement or (ii) upon delivery to the Company of a written notice of a Cashless Exercise for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered and payment shall have been made for such Warrant Shares as set forth above, or, if such date is not a business date, on the next succeeding business day. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding two (2) business days, after this Warrant shall have been so exercised (the "Delivery Period"). The certificates so delivered shall bear a standard restrictive legend and shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

If, at any time, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares specified in the Exercise Agreement, and the Company fails for any reason to deliver, on or prior to the fourth business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a) (N/365), multiplied by (b) the difference between the Market Price (as defined in Section 4(l)(ii) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") less the Exercise Price, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d) .24, where N = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock at the Exercise Price, at the holder's option, as follows:

(a) In the event the holder elects to take such payment in cash, cash payment shall be made to holder by the fifth (5th) day of the month following the month in which it has accrued; and

(b) In the event the holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at the Exercise Price (as in effect at the time of conversion) at any time after the fifth (5th) day of the month following the month in which it has accrued.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof, or to otherwise issue shares of Common Stock upon exercise of this Warrant in accordance with the terms hereof, and the holder shall have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief); provided that any such damages shall be reduced by the amount of the Exercise Default Payments.

2. Period of Exercise. This Warrant is exercisable at any time or from time to time on or after the date of the initial issuance of this Warrant (the "Issue Date") and before 5:00 p.m., New York City time, on the fifth (5th) year anniversary of the Issue Date (the "Exercise Period"). The Exercise Period shall automatically be extended by one (1) day for each day on which the Company does not have a number of shares of Common Stock reserved for issuance upon exercise hereof at least equal to the number of shares of Common Stock issuable upon exercise hereof.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of this Warrant.

(c) Listing. The Company shall promptly secure the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed or through the Exercise Period, whichever is shorter, such listing of all shares of Common Stock from time to time issuable upon the exercise of this Warrant; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system; provided, however, that the holder of this Warrant acknowledges that the rules of such national securities exchange or automated quotation system may under certain circumstances require shareholder approval for the issuance of Shares of Common Stock upon exercise of this Warrant.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction.

4. Antidilution Provisions. During the Exercise Period, the Exercise Price and the number of Warrant Shares shall be subject to adjustment from time to time as provided in this Section 4. In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price and Number of Shares upon Issuance of Common Stock. Except as otherwise provided in Sections 4(b)(iv), 4(c) and 4(e) hereof, if and whenever during the Exercise Period, after the Issue Date, the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price on the date of issuance (other than any issuance pursuant to the Securities Purchase Agreement) (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = E \times \frac{O + P/M}{CSDO}$$

where:

E' = the adjusted Exercise Price;
E = the then current Exercise Price;
M = the then current Market Price (as defined in Section 4(l)(ii));
O = the number of shares of Common Stock outstanding

immediately prior to the Dilutive Issuance;

P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and

CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(l)(i)) immediately after the Dilutive Issuance.

(b) Effect on Exercise Price of Certain Events. For purposes of determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options. If the Company in any manner issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the date of issuance of such Options ("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market

Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options.

(ii) Issuance of Convertible Securities.

(A) If the Company in any manner issues or sells any Convertible Securities, whether or not immediately convertible (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b)(ii)(B) if applicable) is less than the Market Price in effect on the date of issuance of such Convertible Securities, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b)(ii)(A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price in effect on the date of issuance of such Convertible Security was 75% of the Market Price in effect on such date (the "Assumed Variable Market Price"). Further, if the Market Price in effect at any time or times thereafter is less than or equal to the Assumed Variable Market Price last used for making any adjustment under this Section 4 with respect to any Variable Rate Convertible Security, the Exercise Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed

Variable Market Price in effect at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price in effect at the time of the adjustment required by this sentence.

(iii) Change in Option Price or Conversion Rate. If there is a change at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Option or upon exercise, conversion or exchange of any Convertible Securities is not, in fact, issued and the rights to exercise such Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(v) Calculation of Consideration Received. If any Common Stock, Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, before deduction of reasonable commissions, underwriting discounts or allowances or other reasonable expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, the amount of the consideration other than cash received by the Company will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair market value of any consideration other than cash or securities will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise or conversion of any warrants, options, subscriptions, convertible notes, convertible debentures, convertible preferred stock or other convertible securities issued and outstanding on the First Closing Date (as defined in the Securities Purchase Agreement) as set forth on Schedule 3(a)(iii) of the Securities Purchase Agreement in accordance with the terms of such securities as of such date; (ii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Company now existing or to be implemented in the future, or upon grant or exercise of any stock or options to or by any officer, director, employee, agent, consultant or other entity providing services to the Company, whether or not under a plan, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose; (iii) upon the issuance of any Debentures (as such term is defined in the Securities Purchase Agreement) or Warrants issued or issuable in accordance with the terms of the Securities Purchase Agreement; (iv) upon conversion of the Debentures or exercise of the Warrants; (v) upon the issuance of securities in connection with an underwritten public offering of the Company; (vi) upon the issuance of securities in connection with any merger, acquisition or consolidation, or purchase of assets or business from another person, so long as the Company is the surviving corporation; (vii) upon the issuance of securities issued as the result of anti-dilution rights granted to a third party; (viii) in connection with the issuance of securities upon the exercise of warrants or other rights granted as "equity kickers" to the holders of Senior Indebtedness (as defined in the Debentures); and (ix) upon exercise of the Placement Agent's Warrants.

(c) Subdivision or Combination of Common Stock. If the Company, at any time during the Exercise Period subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 4, the number of shares of Common Stock issuable upon exercise of this Warrant and for which this Warrant is or may become exercisable shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of this Warrant and for which this Warrant is or may become exercisable immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(e) Consolidation or Merger. In case of any consolidation of the Company with, or merger of the Company into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Company at any time during the Exercise Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger, sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger, sale or conveyance unless prior to the consummation thereof, the successor corporation (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other corporation, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Exercise Period, the holder of the Warrant shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal to the fair market value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(f) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Exercise Period, then the holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets (or rights) which would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(g) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares purchasable at such price upon exercise, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

(i) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least twenty (20) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder of this Warrant.

(k) Certain Events. If, at any time after the Issue Date, any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided
for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the holder shall be neither enhanced nor diminished by such event.

(l) Certain Definitions.

(i) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding (not including shares of Common Stock held in the treasury of the Company), plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Options), and (y) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any. Except as specifically provided by the foregoing, no other derivative securities (and underlying shares) shall be deemed outstanding for purposes of this definition.

(ii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on the Nasdaq SmallCap Market by Bloomberg Financial Markets ("Bloomberg") for the five (5) consecutive trading days immediately preceding such date, or (ii) if the Nasdaq SmallCap Market is not the principal trading market for the shares of Common Stock, the average of the closing bid prices reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last reported price reported by Bloomberg for such period, or (iii) if the foregoing do not apply, the last closing bid price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg, or if no closing bid price is so reported for such security, the last closing trade price of such security as reported by Bloomberg, or (iv) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iii) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Stockholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Sections 7(f) and (g) hereof and to the provisions of Sections 2(f) and (g) of the Securities Purchase Agreement. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary. Notwithstanding anything to the contrary contained herein, the registration rights described in Section 8 hereof are assignable only in accordance with the provisions of the Registration Rights Agreement.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reason ably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant, this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, (i) that the holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws (the cost of which shall be borne by the Company if the Company's counsel renders such opinion and up to $250 of such cost shall be borne by the Company if the holder's counsel is requested to render such opinion), (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act; provided that no such opinion, letter or status as an "accredited investor" shall be required in connection with any transfer pursuant to Rule 144 under the Securities Act.

(g) Additional Restrictions on Exercise or Transfer. Notwithstanding anything contained herein to the contrary, unless the waiver contemplated by the last sentence of this Subsection (g) is delivered, this Warrant shall not be exercisable by a holder hereof to the extent (but only to the extent) that (a) the number of shares of Common Stock beneficially owned by such holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unexercised or unconverted portion of any other securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein) and (b) the number of shares of Common Stock issuable upon exercise of the Warrant (or portion thereof) with respect to which the determination described herein is being made, would result in beneficial ownership by such holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. To the extent the above limitation applies, the determination of whether and to what extent this Warrant shall be exercisable vis-a-vis other securities owned by such holder shall be in the sole discretion of the holder and submission of this Warrant for full or partial exercise shall be deemed to be the holder's determination of whether and the extent to which this Warrant is exercisable, in each case subject to such aggregate percentage limitation. No prior inability to exercise the Warrant pursuant to this Section shall have any effect on the applicability of the provisions of this Section with respect to any subsequent determination of exerciseability. For purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13D-G thereunder, except as otherwise provided in clause (a) of such sentence. The restrictions contained in this Section 7(g) may not be amended without the consent of the holder of this Warrant and the holders of a majority of the Company's then outstanding Common Stock. Notwithstanding the foregoing, the holder hereof may waive the foregoing limitations and restrictions upon thirty (30) days prior written notice to the Company.

8. Registration Rights. The initial holder of this Warrant (and certain assignees thereof) is entitled to the benefit of such registration rights in respect of the Warrant Shares as are set forth in the Registration Rights Agreement, dated as of January 25, 1999, by and between the Company, the initial holder hereof and the other signatories thereto, including the right to assign such rights to certain assignees, as set forth therein.

9. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Fidelity Holdings, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Telecopy: (718) 793-2455
Attention: Chief Executive Officer

and if to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 9.

10. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of choice of law or conflict of laws that would defer to the substantive law of another jurisdiction performed in the State of New York. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in the City of New York in the State of New York in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding shall be determined exclusively in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company agrees that service of process upon the Company mailed by first class mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the holder hereof.

(b) Descriptive Headings. The descriptive headings of the several Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Cashless Exercise. Notwithstanding anything to the contrary contained in this Warrant, this Warrant may be exercised at any time during the Exercise Period by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of the holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference, but not less than zero between the then current Market Price per share of the Common Stock and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

FIDELITY HOLDINGS, INC.

By:

Name:
Title:

By:

Name:
Title:

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

The undersigned hereby irrevocably exercises the right to purchase _____ of the shares of Common Stock of Fidelity Holdings, Inc., a _____ corporation (the "Company"), evidenced by the attached Warrant, and herewith makes payment of the Exercise Price with respect to such shares in full, all in accordance with the conditions and provisions of said Warrant.

(i) The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws, and agrees that the following legend may be affixed to the stock certificate for the Common Stock hereby subscribed for if resale of such Common Stock is not registered or if Rule 144 is unavailable for the immediate resale of such shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED UNDER AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

(ii) The undersigned requests that stock certificates for such shares be issued, and a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated:_____

Signature of Holder

Name of Holder (Print)

Address:

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	Number of Shares

, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: _____, ____

In the presence of

_____

Name: _____

Signature: _____
Title of Signing Officer or Agent (if any):

_____

Address: _____

_____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

Exhibit 4.12

VOID AFTER 5:00 P.M., NEW YORK CITY TIME, ON JANUARY 25, 2004 (UNLESS EXTENDED PURSUANT TO SECTION 2 HEREOF)

THIS WARRANT AND THE SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS THE SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR ANY SUCH OFFER, SALE OR TRANSFER IS MADE PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Date: January 25, 1999

Right to Purchase _____
Shares of Common Stock

COMPUTER BUSINESS SCIENCES, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, _____ or its or his registered assigns (the "Holder") is entitled to purchase from Computer Business Sciences, Inc., a Delaware corporation (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, _____ (_____) fully paid and nonassessable shares (the "Warrant Shares") of the Company's Common Stock, par value $0.01 per share ("Common Stock"), at an exercise price per share equal to $0.001 (the "Exercise Price"). The number of Warrant Shares purchasable hereunder are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant and the other Warrants of the Company issued pursuant to that certain Securities Purchase Agreement, dated as of January 25, 1999, by and among the Company and the other signatories thereto (the "Securities Purchase Agreement") and/or that certain Placement Agency Agreement of even date herewith between the Company and The Zanett Securities Corporation (the "Placement Agency Agreement") and the term "Holders" shall refer to the holders of Warrants.

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised by the Holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company by 11:59 p.m., New York time on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement. Notwithstanding any provision hereof to the contrary, this Warrant shall be deemed exercised in full immediately upon closing by the Company on an initial public offering of shares of the Company's Common Stock at an initial public offering price of $5.00 or more and pursuant to a Registration Statement (as defined herein) which registers the resale of the Warrant Shares in compliance with Section 8 below. The Warrant Shares so purchased shall be deemed to be issued to the Holder hereof or the Holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement shall have been delivered and payment shall have been made for such Warrant Shares as set forth above, or, if such date is not a business date, on the next succeeding business day. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the Holder hereof within a reasonable time, not exceeding two (2) business days, after this Warrant shall have been so exercised (the "Delivery Period"). The certificates so delivered shall bear a standard restrictive legend and shall be in such denominations as may be requested by the Holder hereof and shall be registered in the name of the Holder or such other name as shall be designated by the Holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the Holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

2. Period of Exercise. This Warrant is exercisable at any time or from time to time on or after the date of the initial issuance of this Warrant (the "Issue Date") and before 5:00 p.m., New York City time, on the fifth (5th) year anniversary of the Issue Date (the "Exercise Period"). The Exercise Period shall automatically be extended by one (1) day for each day on which the Company does not have a number of shares of Common Stock reserved for issuance upon exercise hereof at least equal to the number of shares of Common Stock issuable upon exercise hereof.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of this Warrant.

(c) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the Holder of this Warrant in order to protect the exercise privilege of the Holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the

Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(d) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

4. Adjustment to Number of Warrant Shares. During the Exercise Period, the number of Warrant Shares shall be subject to adjustment from time to time as provided in this Section 4. In the event that any adjustment required herein results in a fraction of a share, such fraction shall be rounded up or down to the nearest whole share.

(a) Subdivision or Combination of Common Stock. If the Company, at any time during the Exercise Period subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the number of shares of Common Stock issuable upon exercise of this Warrant and for which this Warrant is or may become exercisable will be proportionately increased. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the number of shares of Common Stock issuable upon exercise of this Warrant and for which this Warrant is or may become exercisable will be proportionately decreased.

(b) Consolidation or Merger. In case of any consolidation of the Company with, or merger of the Company into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Company at any time during the Exercise Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the Holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger, sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 hereof will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger, sale or conveyance unless prior to the consummation thereof, the successor corporation (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the Holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other corporation, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Exercise Price, the Holder of the Warrant shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal to the fair market value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(c) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to Holders of Common Stock as a dividend, by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Exercise Period, then the Holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, to receive the amount of such assets (or rights) which would have been payable to the Holder had the Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(d) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the number of Warrant Shares issuable hereunder, then, and in each such case, the Company shall give notice thereof to the Holder of this Warrant, which notice shall state the increase or decrease in the number of Warrant Shares purchasable hereunder resulting from such adjustment, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(e) Certain Events. If, at any time after the Issue Date, any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(d) hereof, and the Company's Board of Directors will make an appropriate adjustment in the number of Warrant Shares purchasable upon exercise of this Warrant so that the rights of the Holder shall be neither enhanced nor diminished by such event.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the Holder of this Warrant.

6. No Rights or Liabilities as a Stockholder. This Warrant shall not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the Holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of the Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the Holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f) hereof and to the provisions of Sections 2(f) and (g) of the Securities Purchase Agreement. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and Holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary. Notwithstanding anything to the contrary contained herein, the registration rights described in Section 8 hereof are assignable only in accordance with the provisions of the Registration Rights Agreement.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the Holder of this Warrant for all costs and expenses (including legal fees) incurred by the Holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant, this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws (the cost of which shall be borne by the Company if the Company's counsel renders such opinion and up to $ 250.00 of such cost shall be borne by the Company if the Holder's counsel is requested to render such opinion), (ii) that the Holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act; provided that no such opinion, letter or status as an "accredited investor" shall be required in connection with any transfer pursuant to Rule 144 under the Securities Act.

8. Registration Rights.

(a) Piggy-Back Registrations. If at any time prior to the expiration of the Registration Period (as hereinafter defined) the Company shall file with the Securities and Exchange Commission ("SEC") a registration statement (a "Registration Statement") under the Securities Act of 1933 (the "Securities Act") relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans), the Company shall include in such Registration Statement all of the Warrant Shares, except that if, in connection with any underwritten public offering, the managing underwriter(s) thereof shall impose a limitation on the number of shares of the Company's Common Stock which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Warrant Shares as the underwriter shall permit. Any exclusion of Warrant Shares shall be made pro rata among the Holders of Warrants and/or Warrant Shares, in proportion to the number of Warrant Shares held or purchasable by such Holders; provided, however, that the Company shall not exclude any Warrant Shares unless the Company has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion with the Warrant Shares; and provided, further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Warrant Shares shall be made pro rata with holders of other securities having the right to include such securities in the Registration Statement other than holders of securities entitled to inclusion of their securities in such Registration Statement by reason of demand registration rights.

(b) The Company shall keep the Registration Statements effective pursuant to Rule 415 at all times until such date as is the earlier of (i) the date on which at least 90% of the Warrant Shares have been sold, (ii) the date on which all of the Warrant Shares (in the reasonable opinion of counsel to the Holder) may be immediately sold to the public without registration or restriction pursuant to Rule 144(k) under the Securities Act or any successor provision, or (iii) the date on which all restrictive legends have been removed from all Warrant Shares all "stop transfer" instructions issued to the Company's transfer agent have been canceled (the "Registration Period"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein and all documents incorporated by reference therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein not misleading.

(c) The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectuses used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Warrant Shares of the Company covered by the Registration Statement until such time as all of such Warrant Shares have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement.

(d) The Company shall furnish to the Holder and its legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one copy of each Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, (ii) on the date of effectiveness of a Registration Statement or any amendment thereto, a notice stating that the Registration Statement or amendment has been declared effective, and (iii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as the Holder may reasonably request in order to facilitate the disposition of the Warrant Shares owned by the Holder.

(e) The Company shall use its best efforts to (i) register and qualify the Warrant Shares covered by the Registration Statement under such other securities or "blue sky" laws of such jurisdictions in the United States as the Holder reasonably requests, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Warrant Shares for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Subsection, (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

(f) As promptly as practicable after becoming aware of such event, the Company shall notify the Holder of the happening of any event, of which the Company has knowledge, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and use its best efforts promptly to prepare a supplement or amendment to such Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to the Holder as the Holder may reasonably request.

(g) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest practicable moment (including in each case by amending or supplementing such Registration Statement) and to notify the Holder of the issuance of such order and the resolution thereof (and if such Registration Statement is supplemented or amended, deliver such number of copies of such supplement or amendment to the Holder as the Holder may reasonably request).

(h) The Company shall permit a single firm of counsel designated by the Holders to review each Registration Statement and all amendments and supplements thereto a reasonable period of time prior to their filing with the SEC, and not file any document in a form to which such counsel reasonably objects.

(i) The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of a Registration Statement.

(j) At the request of the Holders, the Company shall make available, on the date of effectiveness of a Registration Statement (i) an opinion, dated as of such date, from counsel representing the Company addressed to the Holders and in form, scope and substance as is customarily given in an underwritten public offering and (ii) in the case of an underwriting, a letter, dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Holders.

(k) The Company shall make available for inspection by (i) the Holder, and (ii) one firm of attorneys and one firm of accountants or other agents retained by the Holders, (collectively, the "Inspectors") all pertinent financial and other records, and pertinent corporate documents and properties of the Company (collectively, the "Records"), as shall be reasonably deemed necessary by each Inspector to enable each Inspector to exercise its due diligence responsibility, and cause the Company's officers, directors and employees to supply all information which any Inspector may reasonably request for purposes of such due diligence; provided, however, that each Inspector shall hold in confidence and shall not make any disclosure (except to a Holder) or use of any Record or other information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement, (b) the release of such Records is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction or (c) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into confidentiality agreements (in form and substance satisfactory to the Company) with the Company with respect thereto, substantially in the form of this Subsection. The Holder agrees that it shall, upon learning that disclosure of such Records is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein shall be deemed to limit the Holder's ability to sell Warrant Shares in a manner which is otherwise consistent with applicable laws and regulations.

(l) The Company shall hold in confidence and not make any disclosure of information concerning the Holder provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement, or (v) the Holder consents to the form and content of any such disclosure. The Company agrees that it shall, upon learning that disclosure of such information concerning the Holder is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Holder prior to making such disclosure, and allow the Holder, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

(m) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Warrant Shares not later than the effective date of the Registration Statement.

(n) At the reasonable request of the Holder, the Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary in order to change the plan of distribution set forth in the Registration Statement.

(o) The Company shall comply with all applicable laws related to the Registration Statement and offering and sale of securities and all applicable rules and regulations of governmental authorities in connection therewith (including, without limitation, the Securities Act and the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC).

(p) The Company shall take all such other actions as the Holder reasonably request in order to expedite or facilitate the disposition of the Warrant Shares.

(q) It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Warrant with respect to the Warrant Shares that the Holder shall furnish to the Company such information regarding itself, the Warrant Shares and the intended method of disposition of the Warrant Shares held by it as shall be reasonably required to effect the registration of such Warrant Shares and shall execute such documents in connection with such registration as the Company may reasonably request. At least five (5) business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify the Holder of the information the Company requires from each the Holder.

(r) The Holder, by the Holder's acceptance of the Warrant Shares, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder.

(s) All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel selected by the Holders pursuant hereto shall be borne by the Company. In addition, the Company shall pay all of the Holders' costs and expenses (including legal fees) incurred in connection with the enforcement of the rights of the Holders hereunder.

(t) To the extent permitted by law, the Company will indemnify, hold harmless and defend (i) the Holder, and (ii) the directors, officers, partners, members employees, agents and each person who controls the Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any, (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Warrant Shares (the matters in the foregoing clauses (i) through (iii) being, collectively, "Violations"). Subject to the restrictions set forth in Section 6(c) with respect to the number of legal counsel, the Company shall reimburse the Holder and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable, actual and appropriate out of pocket expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Subsection: (i) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressy for use in a Registration Statement or any such amendment thereof or supplement thereto; (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld; and (iii) with respect to any preliminary prospectus, shall not inure to the benefit of any Indemnified Person if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, if such corrected prospectus was timely made available by the Company and the Indemnified Person was promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a

Violation and such Indemnified Person, notwithstanding such advice, used it. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Warrant Shares by the Holders pursuant to Section 9 hereof.

(u) In connection with any Registration Statement in which the Holder is participating, the Holder agrees to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in Subsection (t), the Company, each of its directors, each of its officers who signs the Registration Statement, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder within the meaning of the Securities Act or the Exchange Act (collectively and together with an Indemnified Person, an "Indemnified Party"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by the Holder expressly for use in connection with such Registration Statement; and subject to Subsection (v) the Holder will reimburse any legal or other expenses (promptly as such expenses are incurred and are due and payable) reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Subsection shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Holder, which consent shall not be unreasonably withheld; provided, further, however, that the Holder shall be liable under this Agreement (including this Subsection and Subsection (w) for only that amount as does not exceed the net proceeds actually received by the Holder as a result of the sale of Warrant Shares pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Subsection with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, and the Indemnified Party failed to utilize such corrected prospectus.

(v) Promptly after receipt by an Indemnified Person or Indemnified Party of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is made against any indemnifying party, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that such indemnifying party shall not be entitled to assume such defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party which are different from or in addition to those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Persons or the Indemnified Parties, as applicable, and such legal counsel shall be selected by the Holder, if the Holder is entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party, except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required hereby shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

(w) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Subsections (t) or (u) to the fullest extent permitted by law; provided, however, that (i) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Subsections (t) and (u), (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Warrant Shares who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Warrant Shares shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Warrant Shares pursuant to such Registration Statement.

9. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Computer Business Sciences, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Telecopy:
Attention:

and if to the Holder, at such address as the Holder shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 9.

10. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of choice of law or conflict of laws that would defer to the substantive law of another jurisdiction. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in the City of New York in the State of New York in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding shall be determined exclusively in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company agrees that service of process upon the Company mailed by first class mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the Holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the Holder hereof.

(b) Descriptive Headings. The descriptive headings of the several Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

COMPUTER BUSINESS SCIENCES, INC.

By:

Name:
Title:

By:

Name:
Title:

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

The undersigned hereby irrevocably exercises the right to purchase _____ of the shares of Common Stock of Computer Business Sciences, Inc., a Delaware corporation (the "Company"), evidenced by the attached Warrant, and

herewith makes payment of the Exercise Price with respect to such shares in full, all in accordance with the conditions and provisions of said Warrant.

(i) The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws, and agrees that the following legend may be affixed to the stock certificate for the Common Stock hereby subscribed for if resale of such Common Stock is not registered or if Rule 144 is unavailable for the immediate resale of such shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED UNDER AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

(ii) The undersigned requests that stock certificates for such shares be issued, and a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated:_____

_____
Signature of Holder

_____
Name of Holder (Print)

Address:

_____
_____
_____

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	Number of Shares

, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: _____, ____

In the presence of

_____

Name: _____

Signature: _____
Title of Signing Officer or Agent (if any):
_____
Address: _____
_____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

Exhibit 4.13

THIS CONVERTIBLE SUBORDINATED TERM DEBENTURE AND THE SECURITIES ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS THE SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR ANY SUCH OFFER, SALE OR TRANSFER IS MADE UNDER AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

CONVERTIBLE SUBORDINATED TERM DEBENTURE

Date: January 25, 1999 $_____

FOR VALUE RECEIVED, FIDELITY HOLDINGS, INC., a corporation organized under the laws of the State of Nevada (hereinafter called the "Borrower" or the "Corporation") hereby promises to pay to the order of _____ or registered assigns (individually, the "Holder", and collectively with the holders of all other debentures of same like and tenor, the "Holders") the sum of _____ Dollars ($_____) together with interest at the rate of twelve percent (12%) per annum (the "Interest Rate"), as follows: Interest shall accrue on the unconverted face amount hereof from the date hereof (the "Issue Date") through that date which is one hundred eighty (180) days from the Issue Date (the "Accrual Period"), at which time all accrued interest shall be added to the unconverted face amount hereof and the resulting balance, together with interest at the Interest Rate shall be due and payable in sixteen (16) equal monthly installments of $_____ commencing one month following the end of the Accrual Period and continuing on the same day of each month with a final payment on that date which is seventeen (17) months following the end of the Accrual Period (the "Scheduled Maturity Date"). Interest shall accrue on a daily basis. Any amount of principal of or interest on this Debenture which is not paid when due shall bear interest at the rate of fifteen percent (15%) per annum from the due date thereof until the same is paid. Interest shall be calculated based on a 360 day year having twelve months of thirty days each. All payments of principal and interest (to the extent not converted in accordance with the terms hereof) shall be made in, and all references herein to monetary denominations shall refer to, lawful money of the United States of America, subject to the Holder's conversion right set below. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Debenture.

Notwithstanding any provision hereof to the contrary, the Holder shall have the option to receive each payment of principal and interest hereunder in cash or to convert all or any portion of such payment into shares of Common Stock (defined below) pursuant to Article III below. The Holder shall be required to deliver a Notice of Conversion in order to convert any payment of principal and interest hereunder (or a portion thereof) into shares of Common Stock. Such written notice of its election to convert shall be delivered no later than two (2) business days prior to the payment due date. In such event, the Conversion Date with respect to any such conversion shall be the payment due date.

This Debenture is being issued by the Borrower along with similar convertible term debentures (the "Other Debentures" and, together with this Debenture, the "Debentures") pursuant to that certain Securities Purchase Agreement, dated as of January 25, 1999 by and among the Borrower and the other signatories thereto (the "Securities Purchase Agreement").

ARTICLE I

PREPAYMENT; SUBORDINATION

A. Limited Right to Prepay. Upon the occurrence of an Event of Default (as defined herein), this Debenture shall be prepaid by the Borrower in accordance with the provisions of Article VII hereof. Except as provided in Paragraph B of this Article I, this Debenture may not be prepaid at the option of Borrower without the prior written consent of the Holder.

B. Prepayment at Borrower's Option. Subject to prior conversion, the Borrower shall have the right to prepay the unpaid principal balance of and accrued but unpaid interest on this Debenture in whole or in part at any time upon not less than sixty (60) days written notice to the Holders; provided that (i) any such prepayment of principal shall be accompanied by a prepayment premium equal to ten percent (10%) of the principal amount being prepaid, and (ii) all payments shall be applied first to the payment of costs and expenses, if any, due from the Borrower to the Holder, if any, then to accrued but unpaid interest on the principal balance hereof and then to the scheduled payments of principal in inverse order of maturity.

C. Subordination.

(i) The indebtedness evidenced by the Debenture shall be subordinated and junior in right of payment to all Senior Indebtedness (as defined below) to the extent and in the manner set forth in this Article I.C.

(ii) In the event of (a) any insolvency, bankruptcy, receivership, liquidation, reorganization, debt readjustment or composition or other similar proceeding relative to the Corporation or its creditors or its property, (b) any proceeding for voluntary liquidation, dissolution or other winding up of the Corporation, whether or not involving insolvency or bankruptcy proceedings or (c) any assignment for the benefit of creditors or any other marshaling of the assets of the Corporation, then and in any such event the holders of all Senior Indebtedness shall first be paid in full the principal thereof and prepayment charges, if any, and interest at the time due thereon before any payment or distribution of any character, whether in cash, securities or other property, shall be made on account of the Debenture.

(iii) Until the Senior Indebtedness is paid in full, the holder of the Debenture shall be subordinated to the rights of the holders of Senior Indebtedness to receive cash payments, but not with respect to receive Common Stock as contemplated by the conversion provisions hereunder.

(iv) Upon any distribution of assets or securities of the Corporation referred to in this Article I.C, the holder of the debenture shall be entitled to rely upon a certificate of any liquidating trustee or agent or other person making any distribution to the holder of the Debenture for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Corporation, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article I.C.

(v) In the event and during the continuation of any default in the payment of principal of, or prepayment charge, if any, or interest on, any Senior Indebtedness beyond any applicable period of grace, or in the event that any event of default with respect to any Senior Indebtedness shall have occurred and be continuing permitting the holders of such Senior Indebtedness (or a trustee on behalf of the holders thereof) to accelerate the maturity thereof, then unless and until such default or event of default shall have been cured or waived or shall have ceased to exist, no cash payment of principal, premium, if any, or interest shall be made by the Corporation on the Debenture.

(vi) No right of any present or future holder of any Senior Indebtedness of the Corporation to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Corporation or by any act or failure to act, in good faith, by any such holder, or by any non-compliance by the Corporation with the covenants, agreements and conditions of the Debenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

(vii) "Senior Indebtedness" means all loans, advances, reimbursement obligations regarding letters of credit, liabilities, covenants, guarantees and duties now existing or arising from time to time hereafter and renewals, extensions and refundings of any such indebtedness, whether for principal, premium or interest or otherwise of the Corporation or any subsidiary of the Corporation (including without limitation Major Acquisition Corp.) (i) outstanding as of January 25, 1999, or (ii) to, but only to, any bank or other commercial financing institution and either (A) incurred in connection with the acquisition of the securities or assets of another entity constituting the acquisition of the business of such entity, or (B) constituting "floor planning" financing of automobile dealerships (all indebtedness described in clauses (i) and (ii) above shall be referred to herein as "Qualifying Debt"), absolute or contingent, secured or unsecured, due or to become due, including (1) any Qualifying Debt which such bank or other commercial financing institution may have obtained by assignment, pledge, purchase or otherwise, (2) any overdraft or overadvance to the Corporation with respect to Qualifying Debt, and (3) all interest, charges, expenses and attorney's fees for which the Corporation or any subsidiary of the Corporation is now or hereafter becomes liable with respect to Qualifying Debt (unless in the instrument creating or evidencing such indebtedness, or pursuant to which the same is outstanding, it is provided that such indebtedness or such renewal, extension or refunding thereof is subordinated in right of payment to the Debentures).

ARTICLE II

CERTAIN DEFINITIONS

The following terms shall have the following meanings:

A. "Closing Bid Price" means, for any security as of any date, the closing bid price of such security on the principal United States securities exchange or trading market where such security is listed or traded as reported by Bloomberg Financial Markets (or a comparable reporting service of national reputation selected by the Corporation and reasonably acceptable to holders of a majority of the aggregate principal amount represented by the then outstanding Debentures ("Majority Holders")

if Bloomberg Financial Markets is not then reporting closing bid prices of such security) (collectively, "Bloomberg"), or if the foregoing does not apply, the last reported bid price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no bid price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc., in each case for such date or, if such date was not a trading date for such security, on the next preceding date which was a trading date. If the Closing Bid Price cannot be calculated for such security as of either of such dates on any of the foregoing bases, the Closing Bid Price of such security on such date shall be the fair market value as reasonably determined by an investment banking firm selected by the Corporation and reasonably acceptable to the Majority Holders, with the costs of such appraisal to be borne by the Corporation.

B. "Conversion Amount" means the portion of the unconverted principal amount of this Debenture being converted plus any accrued and unpaid interest thereon through the Conversion Date and any Prepayment Default Payments payable with respect thereto, each as specified in the notice of conversion in the form attached hereto (the "Notice of Conversion").

C. "Conversion Date" means, for any Optional Conversion (as defined below), the date specified in the Notice of Conversion so long as the copy of the Notice of Conversion is faxed (or delivered by other means resulting in notice) to the Corporation at or before 11:59 p.m., New York City time, on the Conversion Date indicated in the Notice of Conversion; provided, however, that if the Notice of Conversion is not so faxed or otherwise delivered before such time, then the Conversion Date shall be the date the holder faxes or otherwise delivers the Notice of Conversion to the Corporation.

D. "Conversion Price" means the lower of the Fixed Conversion Price and the Variable Conversion Price, each in effect as of such date and subject to adjustment as provided herein, but in no event less than the Floor Conversion Price.

E. "Fixed Conversion Price" means $4.20, and shall be subject to adjustment as provided herein.

F. "Floor Conversion Price" means $3.00, subject to applicable adjustment as provided herein.

G. "Variable Conversion Price" means, as of any date of determination, an amount equal to 90% (the "Conversion Percentage") of the average of the Closing Bid Prices for the Corporation's common stock, par value $0.001 per share ("Common Stock"), for any three (3) trading days selected by the Holder during the twenty (20) consecutive trading days ending on the trading day immediately preceding such date of determination (the "Lookback Period") (subject to equitable adjustment for any stock splits, stock dividends, reclassifications or similar events during such twenty (20) trading day period), and shall be subject to adjustment as provided herein. For the avoidance of doubt, the trading day immediately preceding any Conversion Date is the last calendar day that is a trading day and which is immediately preceding the Conversion Date. As of the end of the Accrual Period, the Lookback Period shall be increased to twenty-one (21) days, and it shall increase by one date as of the same day of each succeeding calendar month.

ARTICLE III

CONVERSION

A. Conversion at the Option of the Holder. (i) Subject to the limitations on conversions contained in Paragraph C of this Article III and the rights of prepayment set forth in Article I, the Holder may, at any time and from time to time on or after the Issue Date and prior to payment in full of the outstanding unconverted principal balance of and accrued interest on this Debenture, convert (an "Optional Conversion") all or any part of the outstanding principal amount of this Debenture, plus all accrued interest thereon through the Conversion Date, into a number of fully paid and nonassessable shares of Common Stock determined in accordance with the following formula:

$$\frac{\text{Conversion Amount}}{\text{Conversion Price}}$$

B. Mechanics of Conversion. In order to effect an Optional Conversion, a Holder shall: (x) fax (or otherwise deliver) a copy of the fully executed Notice of Conversion to the Corporation or its transfer agent for the Common Stock and (y) surrender or cause to be surrendered this Debenture, duly endorsed, along with a copy of the Notice of Conversion as soon as practicable thereafter to the Corporation. Upon receipt by the Corporation or its transfer agent of a facsimile copy of a Notice of Conversion from a Holder, the Corporation shall immediately send, via facsimile, a confirmation to such Holder stating that the Notice of Conversion has been received, the date upon which the Corporation expects to deliver the Common Stock issuable upon such conversion and the name and telephone number of a contact person at the Corporation regarding the conversion. The Corporation shall not be obligated to issue shares of Common Stock upon a conversion unless either this Debenture is

delivered to the Corporation as provided above, or the Holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and delivers the documentation to the Corporation required by Article IX.H hereof.

(i) Delivery of Common Stock Upon Conversion. Upon the surrender of this Debenture accompanied by a Notice of Conversion, the Corporation shall, no later than the later of (a) the fifth business day following the Conversion Date and (b) the business day following the date of such surrender (or, in the case of lost, stolen or destroyed certificates, after provision of indemnity pursuant to Article IX.H) (the "Delivery Period"), issue and deliver to the Holder or its nominee (x) that number of shares of Common Stock issuable upon conversion of the portion of this Debenture being converted and (y) a new Debenture in the form hereof representing the balance of the principal amount hereof not being converted, if any. If the Corporation's transfer agent is participating in the Depository Trust Corporation ("DTC") Fast Automated Securities Transfer program, and if, but only if, as the certificates therefor do not bear a legend and the holder thereof is not then obligated to return such certificate for the placement of a legend thereon, the Corporation shall cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the holder by crediting the account of the holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DTC Transfer"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Corporation shall deliver to the holder physical certificates representing the Common Stock issuable upon conversion. Further, a Holder may instruct the Corporation to deliver to the holder physical certificates representing the Common Stock issuable upon conversion in lieu of delivering such shares by way of DTC Transfer.

(ii) Taxes. The Corporation shall pay any and all taxes which may be imposed upon it with respect to the issuance and delivery of the shares of Common Stock upon the conversion of this Debenture.

(iii) No Fractional Shares. If any conversion of this Debenture would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and an amount equal to the product of such fraction and the Closing Bid Price as of the date of Conversion Date shall be paid in lieu thereof.

(iv) Conversion Disputes. In the case of any dispute with respect to a conversion, the Corporation shall promptly issue such number of shares of Common Stock as are not disputed in accordance with subparagraph (i) above. If such dispute involves the calculation of the Conversion Price, the Corporation shall submit the disputed calculations to an independent outside accountant via facsimile within two (2) business days of receipt of the Notice of Conversion. The accountant, at the Corporation's sole expense (unless the accountant concludes that the Corporation's initial calculation was correct, in which event at the holder's expense), shall audit the calculations and notify the Corporation and the holder of the results no later than two business days from the date it receives the disputed calculations. The accountant's calculation shall be deemed conclusive, absent manifest error. The Corporation shall then issue the appropriate number of shares of Common Stock in accordance with subparagraph (i) above.

C. Limitations on Conversions. The conversion of this Debenture shall be subject to the following limitations (each of which limitations shall be applied independently):

(i) Cap Amount. If, notwithstanding the representations and warranties of the Corporation contained in Section 3(c) of the Securities Purchase Agreement, the Corporation is prohibited by Rule 4310(a)(25)(H) or Rule 4460(i) (as the case may be) of the National Association of Securities Dealers, Inc. ("NASD"), or any successor or similar rule, or the rules or regulations of any other securities exchange on which the Common Stock is then listed or traded, from issuing a number of shares of Common Stock in excess of a prescribed amount (the "Cap Amount"), then the Corporation shall not be required to issue shares in excess of the Cap Amount; provided, however, that this limitation in this Article III.C.(i) shall not apply and shall be of no further force and effect after the date of the effectiveness of the shareholder approval (the "Shareholder Approval Date") referred to in Section 4(o) of the Securities Purchase Agreement. Assuming solely for purposes of this paragraph C that Rule 4310(a)(25)(H) or Rule 4460(i) is applicable, the Cap Amount shall be 1,494,800 shares. The Cap Amount shall be allocated pro rata to the Holders of the Debentures as provided in Article IX.D. In the event the Corporation is prohibited from issuing shares of Common Stock as a result of the operation of this subparagraph (i), the Corporation shall comply with Article VI.

(ii) No Five Percent Holders. Unless waived in accordance with the last sentence of this subparagraph, in no event shall a holder of the Debentures be entitled to receive shares of Common Stock upon a conversion to the extent that the sum of (x) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (exclusive of shares issuable upon conversion of the unconverted portion of the Debentures or the unexercised or unconverted portion of any other securities of the Corporation (including, without limitation, the warrants (the "Warrants") issued by the Corporation pursuant to the Securities Purchase Agreement) subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (y) the number of shares of Common Stock issuable upon the conversion of the Debentures with respect to which the determination of this subparagraph is being made, would result in beneficial ownership by the holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of this subparagraph, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13 D-G

thereunder, except as otherwise provided in clause (x) above. Except as provided in the immediately succeeding sentence, the restriction contained in this subparagraph (ii) shall not be altered, amended, deleted or changed in any manner whatsoever unless the holders of a majority of the outstanding shares of Common Stock and the holders of a majority of the outstanding principal amount of the Debentures shall approve such alteration, amendment, deletion or change. In applying the foregoing, such limitation should be applied in conjunction with the application of limitations on conversion or exercise analogous to the foregoing limitation. Notwithstanding the foregoing, the holder of this Debenture may waive the foregoing limitations and restrictions by written notice to the Corporation.

ARTICLE IV

RESERVATION OF SHARES OF COMMON STOCK

A. Reserved Amount. On the Issue Date, the Corporation shall reserve _____ of the authorized but unissued shares of Common Stock for issuance upon conversion of the Debentures and thereafter the number of authorized but unissued shares of Common Stock so reserved (as so increased, the "Reserved Amount") shall not be decreased and shall at all times be sufficient to provide for the conversion of the Debentures at the then current Floor Conversion Price thereof. The Reserved Amount shall be allocated to the Holders of the Debentures as provided in Article IX.D.

B. Increases to Reserved Amount. If the Reserved Amount for any three consecutive trading days (the last of such three trading days being the "Authorization Trigger Date") shall be less than 100% of the number of shares of Common Stock issuable upon conversion of the Debentures at the then-current Floor Conversion Price, the Corporation shall immediately notify the Holders of the Debentures of such occurrence and shall take immediate action (including, if necessary, seeking shareholder approval to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 100% of the number of shares of Common Stock then issuable upon conversion of the Debentures at the then-current Floor Conversion Price. In the event the Corporation fails to so increase the Reserved Amount within, in the event shareholder approval is required, ninety (90) days, or, in the event only approval of the Company's Board of Directors is required, ten (10) days after an Authorization Trigger Date, each Holder of the Debentures shall thereafter have the option, exercisable in whole or in part at any time and from time to time by delivery of a Default Notice (as defined in Article VII.C) to the Corporation, to require the Corporation to prepay for cash, at the Default Amount (as defined in Article VII.B), a portion of the Holder's principal amount outstanding of the Debentures (plus accrued interest thereon) such that, after giving effect to such prepayment, the holder's allocated portion of the Reserved Amount exceeds 100% of the total number of shares of Common Stock issuable to such holder upon conversion of its Debenture at the then-current Floor Conversion Price. If the Corporation fails to pay the Default Amount within five (5) business days after its receipt of such Default Notice, then such Holder shall be entitled to the remedies provided in Article VII.C. Subject to the limitations on issuance of shares of Common Stock in excess of any Holder's Cap Amount, notwithstanding anything else contained herein, if the Corporation has a sufficient number of authorized shares of Common Stock, the Corporation shall immediately issue additional shares of Common Stock to any Holder who has exceeded its allocated portion of the Reserved Amount upon conversions by such Holder of its Debentures.

C. Adjustment to Conversion Price. If the Corporation is prohibited, at any time, from issuing shares of Common Stock upon conversion of the Debentures to any Holder because the Corporation does not then have available a sufficient number of authorized and reserved shares of Common Stock, then the Fixed Conversion Price in respect of any Debentures held by any Holder (including Debentures submitted to the Corporation for conversion, but for which shares of Common Stock have not been issued to any such Holder) shall be adjusted as provided in Article V.A.

ARTICLE V

FAILURE TO SATISFY CONVERSIONS

A. Conversion Defaults; Adjustments to Conversion Price. The following shall constitute a "Conversion Default": (i) following the submission by a Holder of a Notice of Conversion, the Corporation fails for any reason (other than because of an event described in clause (iii) below) to deliver, on or prior to the fourth business day following the expiration of the Delivery Period for such conversion, such number of shares of Common Stock without a restrictive legend (provided that appropriate stop transfer instructions may be given to the transfer agent as provided in the Registration Rights Agreement) to which such Holder is entitled upon such conversion (unless as of the Conversion Date the Corporation is not required to have effective a registration statement covering the resale of such shares under the terms of the Registration Rights Agreement (defined below)), (ii) the Corporation provides notice to any Holder of a Debenture at any time of its intention not to issue shares of Common Stock without a restrictive legend (provided that appropriate stop transfer instructions may be given to the transfer agent as provided in the Registration Rights Agreement) upon exercise by any Holder of its conversion rights in accordance with the terms of the Debentures (other than because of an event described in clause (iii) below at a time when the Corporation is required under the Registration Rights Agreement to have an effective registration statement covering the resale of shares

issuable upon conversion, or (iii) the Corporation is prohibited, at any time, from issuing shares of Common Stock upon conversion of the Debentures to any Holder because the Corporation (A) does not have available at the date of such conversion a sufficient number of authorized and reserved shares of Common Stock or (B) such issuance would exceed the then unissued portion of such Holder's Cap Amount. In the case of a Conversion Default described in clause (i) or (iii) above, the Fixed Conversion Price in respect of any Debentures held by such Holder (including Debentures submitted to the Corporation for conversion, but for which shares of Common Stock have not been issued to such Holder) shall thereafter be the lesser of (x) the Fixed Conversion Price on the date of the Conversion Default and (y) the lowest Conversion Price in effect during the period beginning on, and including, such date through and including (A) in the case of a Conversion Default referred to in clause (i) above, the earlier of (1) the day such shares of Common Stock are delivered to the Holder and (2) the day on which the holder regains its rights as a holder of the Debentures with respect to such unconverted Debentures pursuant to the provisions of Article IX.L hereof, and (B) in the case of a Conversion Default referred to in clause (iii) above, the date on which the prohibition on issuances of Common Stock terminates. In the case of a Conversion Default described in clause (ii) above, the Fixed Conversion Price with respect to any conversion thereafter shall be the lowest Conversion Price in effect at any time during the period beginning on, and including, the date of the occurrence of such Conversion Default through and including the Default Cure Date (as hereinafter defined). Following any adjustment to the Fixed Conversion Price pursuant to this Article V.A, the Fixed Conversion Price shall thereafter be subject to further adjustment for any events described in Article VIII. Upon the occurrence of each reset of the Fixed Conversion Price pursuant to this Paragraph A, the Corporation, at its expense, shall promptly compute the new Fixed Conversion Price and prepare and furnish to each Holder of the Debentures a certificate setting forth such new Fixed Conversion Price and showing in detail each Conversion Price in effect during such reset period.

"Default Cure Date" means (i) with respect to a Conversion Default described in clause (i) of its definition, the date the Corporation effects the conversion of all of the outstanding Debentures, and (ii) with respect to a Conversion Default described in clause (ii) of its definition, the date the Corporation issues freely tradeable shares of Common Stock in satisfaction of all conversions of the Debentures in accordance with Article III.A, and (iii) with respect to either type of a Conversion Default, the date on which the Corporation prepays the Debentures held by such holder pursuant to paragraph C of this Article V.

B. Buy-In Cure. Unless the Corporation has notified the applicable holder in writing prior to the delivery by such holder of a Notice of Conversion that the Corporation is unable to honor conversions, if (i) (a) the Corporation fails for any reason to deliver during the Delivery Period shares of Common Stock to a Holder upon a conversion of the Debentures or (b) there shall occur a Legend Removal Failure (as defined in Article VII.A (iv) below) and (ii) thereafter, such Holder purchases (in an open market transaction or otherwise) shares of Common Stock to make delivery in satisfaction of a sale by such Holder of the unlegended shares of Common Stock (the "Sold Shares") which such Holder anticipated receiving upon such conversion (a "Buy-In"), the Corporation shall pay such Holder (in addition to any other remedies available to the Holder) the amount by which (x) such Holder's total purchase price (including brokerage commissions, if any) for the unlegended shares of Common Stock so purchased exceeds (y) the net proceeds received by such Holder from the sale of the Sold Shares. For example, if a Holder purchases unlegended shares of Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to shares of Common Stock it sold for $10,000, the Corporation will be required to pay the Holder $1,000. A Holder shall provide the Corporation written notification and supporting documentation indicating any amounts payable to such Holder pursuant to this Paragraph B. The Corporation shall make any payments required pursuant to this Paragraph B in accordance with and subject to the provisions of Article IX.J.

C. Right to Require Prepayment. If the Corporation fails, and such failure continues uncured for five (5) business days after the Corporation has been notified thereof in writing by the Holder, for any reason (other than because such issuance would exceed such Holder's allocated portion of the Reserved Amount or Cap Amount, for which failures the Holders shall have the remedies set forth in Articles IV and VI, respectively) to issue shares of Common Stock within 10 business days after the expiration of the Delivery Period with respect to any conversion of the Debentures, then the Holder may elect at any time and from time to time prior to the Default Cure Date for such Conversion Default, by delivery of a Default Notice (as defined in Article VII.C) to the Corporation, to have all or any portion of such Holder's outstanding Debentures prepaid by Corporation for cash, at the Default Amount (as defined in Article VII.B). If the Corporation fails to pay such Default Amount within five business days after its receipt of a Default Notice, then such Holder shall be entitled to the remedies provided in Article VII.C.

ARTICLE VIII

INABILITY TO CONVERT DUE TO CAP AMOUNT

A. Obligation to Cure. If at any time prior to the Shareholder Approval Date the then unissued portion of any Holder's Cap Amount is less than 100% of the number of shares of Common Stock then issuable upon conversion of such Holder's Debentures at the then-current Floor Conversion Price (a "Trading Market Trigger Event"), the Corporation shall immediately notify the Holders of Debentures of such occurrence and shall take immediate action (including, if necessary, seeking the approval of its shareholders to authorize the issuance of the full number of shares of Common Stock which would be issuable

upon the conversion of the Debentures but for the Cap Amount) to eliminate any prohibitions under applicable law or the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Corporation or any of its securities on the Corporation's ability to issue shares of Common Stock in excess of the Cap Amount ("Trading Market Prohibitions"). In the event the Corporation fails to eliminate all such Trading Market Prohibitions within ninety (90) days after the Trading Market Trigger Event, then each Holder of Debentures shall thereafter have the option, exercisable in whole or in part at any time and from time to time until such date that all such Trading Market Prohibitions are eliminated, by delivery of a Default Notice (as defined in Article VII.C) to the Corporation, to require the Corporation to repay for cash, at the Default Amount, a principal amount of the Holder's Debentures such that, after giving effect to such repayment, the then unissued portion of such Holder's Cap Amount exceeds 100% of the total number of shares of Common Stock issuable upon conversion of such Holder's Debentures at the then-current Floor Conversion Price. If the Corporation fails to pay the Default Amount within five (5) business days after its receipt of a Default Notice, then such Holder shall be entitled to the remedies provided in Articles VI.B and VII.C. On or after the Shareholder Approval Date, the Corporation shall treat any such Trading Market Prohibitions as eliminated.

B. Adjustment to Conversion Price. If the Corporation is prohibited, at any time, from issuing shares of Common Stock upon conversion of the Debentures to any Holder because such issuance would exceed the then unissued portion of such Holder's Cap Amount because of applicable law or the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Corporation or its securities then the Fixed Conversion Price in respect of any Debentures held by any Holder (including Debentures submitted to the Corporation for conversion, but for which shares of Common Stock have not been issued) shall be adjusted as provided in Article V.A.

ARTICLE IX

EVENTS OF DEFAULT

A. Events of Default. In the event (each of the events described in clauses (i)-(ix) below after expiration of the applicable cure period (if any) being an "Event of Default"):

(i) the Corporation fails (i) to pay the unconverted portion of the principal hereof when due, whether at maturity, upon acceleration or otherwise or (ii) to pay any unconverted portion of an installment of interest hereon when due and such failure continues for a period of five (5) business days after the due date hereof;

(ii) the Common Stock (including any of the shares of Common Stock issuable upon conversion of the Debentures) is suspended from trading on any of, or is not listed (and authorized) for trading on at least one of, the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or the Nasdaq SmallCap Market for an aggregate of 10 trading days in any nine month period;

(iii) the Registration Statements required to be filed by the Corporation pursuant to Section 2(a) of that certain Registration Rights Agreement by and among the Corporation and the other signatories thereto entered into in connection with the Securities Purchase Agreement (the "Registration Rights Agreement") have not been filed and declared effective within the time period(s) described therein or any such Registration Statements, after being declared effective, cannot be utilized by the Holders of the Debentures for the resale of all of their Registrable Securities (as defined in the Registration Rights Agreement) (other than solely for reasons within the control of the Holders of the Debentures) for an aggregate of more than 30 days;

(iv) Provided that either a Registration Statement covering the resale of shares of Common Stock issuable upon conversion of the Debentures is in effect, or upon compliance with the requirements of Rule 144, the Corporation fails to remove any restrictive legend on any certificate or any shares of Common Stock issued to the Holders of the Debentures upon conversion of any of the Debentures as and when required by this Debenture, the Securities Purchase Agreement or the Registration Rights Agreement (but provided that appropriate stop-transfer instructions may be given to the transfer agent as provided in the Registration Rights Agreement) (a "Legend Removal Failure"), and any such failure continues uncured for five business days after the Corporation has been notified thereof in writing by the Holder;

(v) the Corporation provides notice to any Holder of the Debentures, including by way of public announcement, at any time, of its intention not to issue, or otherwise refuses to issue, shares of Common Stock to any Holder of the Debentures upon conversion in accordance with the terms of the Debentures (other than due to the circumstances contemplated by Articles IV or VI for which the holders shall have the remedies set forth in such Articles);

(vi) the Corporation shall:

(a) sell, convey or dispose of all or substantially all of its assets (stockholder approval of such transaction being conclusive evidence that such transaction involves the sale of all or substantially all of the assets of the Corporation);

(b) merge, consolidate or engage in any other business combination with any other entity (other than pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Corporation and other than pursuant to a merger in which the Corporation is the surviving or continuing entity and the voting capital stock of the Corporation immediately prior to such merger, consolidation or combination represents at least 50% of the voting power of the capital stock of the Corporation after the merger, consolidation or combination) and its capital stock is unchanged; or

(c) have fifty percent (50%) or more of the voting power of its capital stock owned beneficially by one person, entity or "group" (as such term is used under Section 13(d) of the Securities Exchange Act of 1934, as amended) exclusive of Bruce Bendell, Doron Cohen or any of their family members or affiliates; or

(vii) the Corporation otherwise shall breach any term hereunder (including; without limitation, Article IV hereof) or under the Securities Purchase Agreement or the Registration Rights Agreement, including, without limitation, the representations and warranties in the Securities Purchase Agreement or the Registration Rights Agreement and such breach continues uncured for 10 business days after the Corporation has been notified thereof in writing by any Holder and which breach actually causes a Material Adverse Effect (as such term is defined in the Securities Purchase Agreement);

(viii) the Corporation or any subsidiary of the Corporation shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed; or

(ix) bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Corporation or any subsidiary of the Corporation, which petition, if filed against the Corporation, is not dismissed within ninety (90) days. then, upon the occurrence of any such Event of Default, at the option of each Holder, exercisable in whole or in part at any time and from time to time by delivery of a Default Notice (as defined in Paragraph C below) to the Corporation while such Event of Default continues, the Corporation shall pay the Holders (and upon the occurrence of an Event of Default specified in subparagraphs (viii) and (ix) of this Paragraph A, the Corporation shall be required to pay the Holders), in satisfaction of its obligation to pay the outstanding principal amount of the Debentures and accrued and unpaid interest thereon, an amount equal to the Default Amount and such Default Amount, together with all other ancillary amounts payable hereunder, shall immediately become due and payable, all without demand, presentment or notice, all of which are hereby expressly waived, together with all costs, including, without limitation, reasonable legal fees and expenses of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity. For the avoidance of doubt, the occurrence of any event described in clauses (v), (vi), (viii) or (ix) above shall immediately constitute an Event of Default and there shall be no cure period. Upon the Corporation's receipt of any Default Notice hereunder (other than during the three trading day period following the Corporation's delivery of a Default Announcement (as defined below) to all of the Holders in response to the Corporation's initial receipt of a Default Notice from a holder of the Debentures, the Corporation shall immediately (and in any event within one business day following such receipt) deliver a written notice (a "Default Announcement") to all holders of the Debentures stating the date upon which the Corporation received such Default Notice and the amount of the Debentures covered thereby. The Corporation shall not redeem any Debentures during the three trading day period following the delivery of a required Default Announcement hereunder. At any time and from time to time during such three trading day period, each holder of the Debentures may request (either orally or in writing) information from the Corporation with respect to the instant default (including, but not limited to, the aggregate principal amount outstanding of Debentures covered by Default Notices received by the Corporation) and the Corporation shall furnish (either orally or in writing) as soon as practicable such requested information to such requesting holder.

B. Definition of Default Amount. The "Default Amount" with respect to a Debenture means an amount equal to the greater of:

(i) (V / CP) x M

and (ii) V x 114%

where:

"V" means the principal amount aggregate outstanding of the Debentures being paid plus all accrued and unpaid interest thereon and any Prepayment Default Payments (if any) through the payment date;

"CP" means the Conversion Price in effect on the date on which the Corporation receives the Default Notice; and

"M" means (i) with respect to all repayments other than repayments pursuant to Article VII.A(vi) hereof, the highest Closing Bid Price of the Corporation's Common Stock during the period beginning on the date on which the Corporation receives the Default Notice and ending on the date immediately preceding the date of payment of the Default Amount and (ii) with respect to repayments pursuant to Article VII.A(vi) hereof, the greater of (a) the amount determined pursuant to clause (i) of this definition or (b) the fair market value, as of the date on which the Corporation receives the Default Notice, of the consideration payable to the holder of a share of Common Stock pursuant to the transaction which triggers the repayment obligation. For purposes of this definition, "fair market value" shall be determined by the mutual agreement of the Corporation and Holders of a majority-in-interest of the then outstanding principal amount of the Debentures, or if such agreement cannot be reached within five business days prior to the date of repayment, by an investment banking firm selected by the Corporation and reasonably acceptable to Holders of a majority-in-interest of the then outstanding principal amount of the Debentures, with the costs of such appraisal to be borne by the Corporation.

C. Failure to Pay Default Amounts. If the Corporation fails to pay any Holder the Default Amount with respect to any Debenture within five business days after its receipt of a notice requiring such repayment (a "Default Notice"), then the holder of any Debenture delivering such Default Notice (i) shall be entitled to interest on the Default Amount at a per annum rate equal to the lower of twenty-four percent (24%) and the highest interest rate permitted by applicable law from the date on which the Corporation receives the Default Notice until the date of payment of the Default Amount hereunder, and (ii) shall have the right, at any time and from time to time, to require the Corporation, upon written notice, to immediately convert (in accordance with the terms of Paragraph A of Article III) all or any portion of the Default Amount, plus interest as aforesaid, into shares of Common Stock at the lowest Conversion Price in effect during the period beginning on the date on which the Corporation receives the Default Notice and ending on the Conversion Date with respect to the conversion of such Default Amount. In the event the Corporation is not able to repay all of the outstanding Debentures subject to Default Notices delivered prior to the date upon which such repayment is to be effected, the Corporation shall repay the outstanding Debentures from each holder pro rata, based on the total amounts due the Debentures at the time of repayment included by such holder in all Default Notices delivered prior to the date upon which such repayment is to be effected relative to the total amounts due under the Debentures at the time of repayment included in all of the Default Notices delivered prior to the date upon which such repayment is to be effected.

ARTICLE X

ADJUSTMENTS TO THE CONVERSION PRICE

The Conversion Price shall be subject to adjustment from time to time as follows:

A. Stock Splits, Stock Dividends, Etc. If, at any time on or after the First Closing Date, the number of outstanding shares of Common Stock is increased by a stock split, stock dividend, combination, reclassification or other similar event, the Fixed Conversion Price and the Floor Conversion Price shall be proportionately reduced, or if the number of outstanding shares of Common Stock is decreased by a reverse stock split, combination or reclassification of shares, or other similar event, the Fixed Conversion Price and the Floor Conversion Price shall be proportionately increased. In such event, the Corporation shall notify the Corporation's transfer agent of such change on or before the effective date thereof.

B. Adjustment Due to Merger, Consolidation, Etc. If, at any time after the First Closing Date, there shall be (i) any reclassification or change of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), (ii) any consolidation or merger of the Corporation with any other entity (other than a merger in which the Corporation is the surviving or continuing entity and its capital stock is unchanged), (iii) any sale or transfer of all or substantially all of the assets of the Corporation or (iv) any share exchange pursuant to which all of the outstanding shares of Common Stock are converted into other securities or property (each of (i) - (iv) above being a "Corporate Change"), then the Holders of the Debentures shall thereafter have the right to receive upon conversion, in lieu of the shares of Common Stock otherwise issuable, such shares of stock, securities and/or other property as would have been issued or payable in such Corporate Change with respect to or in exchange for the number of shares of Common Stock which would have been issuable upon conversion (without giving effect to the limitations contained in Article III.C) had such Corporate Change not taken place, and in any such case, appropriate provisions shall be made with respect to the rights and interests of the Holders of the Debentures to the end that the economic value of the Debentures are in no way diminished by such Corporate Change (as reasonably determined by the Holders of a majority of the principal amount of the Debentures then outstanding) and that the provisions hereof (including, without limitation, in the case of any such

consolidation, merger or sale in which the successor entity or purchasing entity is not the Corporation, an immediate adjustment of the Fixed Conversion Price and the Floor Conversion Price so that the Fixed Conversion Price and the Floor Conversion Price immediately after the Corporate Change reflects the same relative value as compared to the value of the surviving entity's common stock that existed between the Fixed Conversion Price and the Floor Conversion Price, respectively, and the value of the Corporation's Common Stock immediately prior to such Corporate Change and an immediate revision to the Variable Conversion Price so that it is determined as provided in Article II.H but based on the price of the common stock of the surviving entity and the market in which such common stock is traded) shall thereafter be applicable, as nearly as may be practicable in relation to any shares of stock or securities thereafter deliverable upon the conversion thereof. The Corporation shall not effect any Corporate Change unless (i) each holder of the Debentures, along with notice sent to the holders of the Common Stock of the Corporation, has received written notice of such transaction at least 75 days prior thereto, but in no event later than 20 days prior to the record date for the determination of shareholders entitled to vote with respect thereto, and (ii) the resulting successor or acquiring entity (if not the Corporation) assumes by written instrument (in form and substance reasonably satisfactory to the Holders of a majority of the principal amount of the Debentures then outstanding) the obligations of the Debentures. The above provisions shall apply regardless of whether or not there would have been a sufficient number of shares of Common Stock authorized and available for issuance upon conversion of the Debentures outstanding as of the date of such transaction, and shall similarly apply to successive reclassifications, consolidations, mergers, sales, transfers or share exchanges.

C. Adjustment Due to Major Announcement. In the event the Corporation at any time after the First Closing Date (i) makes a public announcement that it intends to consolidate or merge with any other entity (other than a merger in which the Corporation is the surviving or continuing entity and its capital stock is unchanged) or to sell or transfer all or substantially all of the assets of the Corporation or (ii) any person, group or entity (including the Corporation) publicly announces a tender offer, exchange offer or another transaction to purchase 50% or more of the Corporation's Common Stock or otherwise publicly announces an intention to replace a majority of the Corporation's Board of Directors by waging a proxy battle or otherwise (the date of the announcement referred to in clause (i) or (ii) of this Paragraph C is hereinafter referred to as the "Announcement Date"), then the Conversion Price shall, effective upon the Announcement Date and continuing through the tenth trading day following the earlier of the consummation of the proposed transaction or tender offer, exchange offer or another transaction or the Abandonment Date (as defined below), be equal to the lower of (x) the Conversion Price which would have been applicable for an Optional Conversion occurring on the Announcement Date and (y) the Conversion Price determined in accordance with Article II.E on the Conversion Date set forth in the Notice of Conversion for the Optional Conversion. From and after the tenth trading day following the Abandonment Date, the Conversion Price shall be determined as set forth in Article II.E. "Abandonment Date" means with respect to any proposed transaction or tender offer, exchange offer or another transaction for which a public announcement as contemplated by this Paragraph C has been made, the date upon which the Corporation (in the case of clause (i) above) or the person, group or entity (in the case of clause (ii) above) publicly announces the termination or abandonment of the proposed transaction or tender offer, exchange offer or another transaction which caused this Paragraph C to become operative.

D. Adjustment Due to Distribution. If, at any time after the First Closing Date, the Corporation shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, by way of return of capital or otherwise (including any dividend or distribution to the Corporation's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e. a spin-off)) (a "Distribution"), then the Holders of the Debentures shall be entitled, upon any conversion of the Debentures after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion (without giving effect to the limitations contained in Article III.C) had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

E. Issuance of Other Securities With Variable Conversion Price. If, at any time after the First Closing Date, the Corporation shall issue any securities which are convertible into or exchangeable for Common Stock ("Convertible Securities") at a conversion or exchange rate based on a discount to the market price of the Common Stock at the time of conversion or exercise, then the Conversion Percentage in respect of any conversion of any portion of this Debenture after such issuance shall be calculated utilizing the higher of the greatest discount applicable to any such Convertible Securities and the discount then in effect in calculating the Variable Conversion Price; provided, that no adjustment will be made (i) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan of the Corporation now existing or to be implemented in the future, or upon grant or exercise of any stock or options to or by any officer, director, employee, agent, consultant or other entity providing services to the Corporation, whether or not under a plan, so long as the issuance of such stock or options is approved by a majority of the non-employee members of the Board of Directors of the Corporation or a majority of the members of a committee of non-employee directors established for such purpose; (ii) upon the issuance of any Debentures or Warrants issued or issuable in accordance with the terms of the Securities Purchase Agreement; (iii) upon the issuance of securities in

connection with an underwritten public offering of the Corporation; (iv) upon the issuance of securities in connection with any merger, acquisition or consolidation, or purchase of assets or business from another person, so long as the Corporation is the surviving corporation; (v) upon the issuance of securities issued as the result of anti-dilution rights granted to a third party; and (vi) in connection with the issuance of securities upon the exercise of warrants or other rights granted as "equity kickers" to the holders of Senior Indebtedness.

F. Purchase Rights. If, at any time after the First Closing Date, the Corporation issues any Convertible Securities or rights to purchase stock, warrants, securities or other property (the "Purchase Rights") pro rata to the record holders of any class of Common Stock, then the Holders of the Debentures will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such holder had held the number of shares of Common Stock acquirable upon complete conversion of the Debentures (without giving effect to the limitations contained in Article III.C) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

G. Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Article VIII, the Corporation, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to each Holder of the Debentures a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any Holder of the Debentures, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of any Debenture.

ARTICLE XI

MISCELLANEOUS

A. Failure or Indulgency Not Waiver. No failure or delay on the part of any Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

B. Notices. Any notices required or permitted to be given under the terms of this Debenture shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Corporation:

Fidelity Holdings, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Telecopy: (718) 793-2455

If to the Holder, to the address set forth under such Holder's name on the signature page to the Securities Purchase Agreement executed by such Holder. Each party shall provide notice to the other parties of any change in address.

C. Amendment Provision. This Debenture and any provision hereof may only be amended by an instrument in writing signed by the Corporation and all of the Holders. The term "Debenture" and all references thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

D. Assignability; Allocation of Cap Amount and Reserved Amount. This Debenture shall be binding upon the Corporation and its successors and assigns and shall inure to the benefit of the holder and its successors and assigns. The initial Cap Amount and Reserved Amount shall be allocated pro rata among the Holders of the Debentures based on the aggregate principal amount of Debentures issued to each Holder. Each increase to the Cap Amount and the Reserved Amount shall be allocated pro rata among the Holders of Debentures based on the outstanding principal amount of Debentures held by each Holder at the time of the increase in the Cap Amount or Reserved Amount. In the event a Holder shall sell or otherwise transfer any of such Holder's Debentures, each transferee shall be allocated a pro rata portion of such transferor's Cap Amount and Reserved Amount. Any portion of the Cap Amount or Reserved Amount which remains allocated to any person or entity which

does not hold any Debentures shall be allocated to the remaining Holders of Debentures, pro rata based on the outstanding principal amount of Debentures then held by such Holders. Each transferee of a Debenture shall agree in writing to be bound by the terms of the Securities Purchase Agreement and shall make the representations and warranties set forth in Section 2 thereof.

E. Cost of Collection. If default is made in the payment of this Debenture, the Corporation shall pay the Holder hereof costs of collection, including reasonable attorneys' fees.

F. Governing Law; Jurisdiction. This Debenture shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of choice of laws or conflict of laws that would defer to the substantive law of another jurisdiction. The Corporation irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in New York in any suit or proceeding based on or arising under this Debenture and irrevocably agrees that all claims in respect of such suit or proceeding shall be exclusively determined in such courts. The Corporation irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Corporation further agrees that service of process upon the Corporation mailed by first class mail shall be deemed in every respect effective service of process upon the Corporation in any such suit or proceeding. Nothing herein shall affect the right of any Holder to serve process in any other manner permitted by law. The Corporation agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

G. Denominations. At the request of Holder, upon surrender of this Debenture, the Corporation shall promptly issue new Debentures in the aggregate outstanding principal amount hereof, in the form hereof, in such denominations of at least $25,000 as Holder shall request.

H. Lost or Stolen Debentures. Upon receipt by the Corporation of (i) evidence of the loss, theft, destruction or mutilation of any Debenture and (ii) (y) in the case of loss, theft or destruction, of indemnity (without any bond or other security) reasonably satisfactory to the Corporation, or (z) in the case of mutilation, upon surrender and cancellation of any Debenture, the Corporation shall execute and deliver a new Debenture of like tenor and date. However, the Corporation shall not be obligated to reissue such lost or stolen Debenture if the holder contemporaneously requests the Corporation to convert such Debenture.

I. Quarterly Statements of Available Shares. For each calendar quarter beginning in the quarter in which the initial registration statement required to be filed pursuant to Section 2(a) of the Registration Rights Agreement is declared effective and thereafter so long as any Debentures are outstanding, the Corporation shall deliver (or cause its transfer agent to deliver) if so requested in writing by a Holder a written report notifying the holders of any occurrence which prohibits the Corporation from issuing Common Stock upon any such conversion. The report, if so delivered, shall also specify (i) the total outstanding principal amounts of Debentures as of the end of such quarter, (ii) the total number of shares of Common Stock issued upon all conversions of Debentures prior to the end of such quarter, (iii) the total number of shares of Common Stock which are reserved for issuance upon conversion of the Debentures as of the end of such quarter and (iv) the total number of shares of Common Stock which may thereafter be issued by the Corporation upon conversion of the Debentures before the Corporation would exceed the Cap Amount and the Reserved Amount. The Corporation (or its transfer agent) shall deliver the report for each quarter to each Holder prior to the tenth day of the calendar month following the quarter to which such report relates. In addition, the Corporation (or its transfer agent) shall provide, within 15 days after delivery to the Corporation of a written request by any holder, any of the information enumerated in clauses (i) - (iv) of this Paragraph I as of the date of such request. Simultaneously with delivering such quarterly statements or responding to such written request, the Corporation shall issue a press release with substantially the same information.

J. Payment of Cash; Defaults. Whenever the Corporation is required to make any cash payment to a Holder under the Debentures (as a Conversion Default Payment, upon prepayment, repayment or otherwise), such cash payment shall be made to the Holder within five business days after delivery by such Holder of a notice specifying that the Holder elects to receive such payment in cash and the method (e.g., by check, wire transfer) in which such payment should be made. If such payment is not delivered within such five business day period, such Holder shall thereafter be entitled to interest on the unpaid amount at a per annum rate equal to the lower of twenty-four percent (24%) and the highest interest rate permitted by applicable law until such amount is paid in full to the Holder.

K. Restrictions on Shares. The shares of Common Stock issuable upon conversion of this Debenture may not be sold or transferred unless (i) they first shall have been registered under the Securities Act and applicable state securities laws, (ii) the Corporation shall have been furnished with an opinion of legal counsel (in form, substance and scope customary for opinions in such circumstances) to the effect that such sale or transfer is exempt from the registration requirements of the Securities Act or (iii) they are sold under Rule 144 under the Act. Except as otherwise provided in the Securities Purchase Agreement, each certificate for shares of Common Stock issuable upon conversion of this Debenture that have not been so

registered and that have not been sold under an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED UNDER AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Upon the request of a holder of a certificate representing any shares of Common Stock issuable upon conversion of this Debenture, the Corporation shall remove the foregoing legend from the certificate and issue to such holder a new certificate therefor free of any transfer legend, if (i) with such request, the Corporation shall have received either (A) an opinion of counsel, in form, substance and scope customary for opinions in such circumstances, to the effect that any such legend may be removed from such certificate, or (B) satisfactory documentation from Holder that Holder is selling such security in compliance with Rule 144 or that such Holder and such security meet the requirements of Rule 144(k) or (ii) a registration statement under the Securities Act covering the resale of such securities is in effect. Nothing in this Debenture shall (i) limit the Corporation's obligation under the Registration Rights Agreement, or (ii) affect in any way Holder's obligations to comply with applicable securities laws upon the resale of the securities referred to herein.

L. Status as Debentureholder. Upon submission of a Notice of Conversion by a Holder of the Debentures, (i) the principal amount of the Debentures and the interest thereon covered thereby (other than any portion of the Debentures, if any, which cannot be converted because their conversion would exceed such Holder's allocated portion of the Reserved Amount or Cap Amount) shall be deemed converted into shares of Common Stock as of the Conversion Date and (ii) the Holder's rights as a holder of such Debentures shall cease and terminate (but only with respect to that portion of the Debentures covered by such Notice of Conversion), excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Corporation to comply with the terms of the Debentures. In situations where Article V.B is applicable, the number of shares of Common Stock referred to in clauses (i) and (ii) of the immediately preceding sentence shall be determined on the date on which such shares of Common Stock are delivered to the Holder. Notwithstanding the foregoing, if a Holder has not received certificates for all shares of Common Stock prior to the tenth business day after the expiration of the Delivery Period with respect to a conversion of Debentures for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Stock by so notifying the Corporation within five business days after the expiration of such 10 business day period) the portion of the principal amount and interest thereon subject to such conversion shall be deemed outstanding under the Debentures and the Corporation shall, as soon as practicable, return the Debentures to the Holder. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive payments pursuant to Article V.C to the extent required thereby for such Conversion Default and any subsequent Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions determined in accordance with Article V.A) for the Corporation's failure to convert the Debentures.

M. Remedies Cumulative. The remedies provided in this Debenture shall be cumulative and in addition to all other remedies available under this Debenture, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit a holder's right to pursue actual damages for any failure by the Corporation to comply with the terms of this Debenture. The Corporation acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the holders of the Debentures and that the remedy at law for any such breach may be inadequate. The Corporation therefore agrees, in the event of any such breach or threatened breach, that the holders of the Debentures shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Borrower has caused this Debenture to be executed by its duly authorized officer.

FIDELITY HOLDINGS, INC.

By:

Name:
Title:

Exhibit 1

NOTICE OF CONVERSION

To: Fidelity Holdings, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Telecopy: (718) 793-2455
Attention: _____

The undersigned hereby irrevocably elects to convert $_____ [principal] [and] [interest] amount of the Debenture (the "Conversion"), into shares of common stock ("Common Stock") of Fidelity Holdings, Inc. (the "Corporation") according to the conditions of the Convertible Term Debenture dated January 25, 1999 (the "Debenture"), as of the date written below. If securities are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. No fee will be charged to the holder for any conversion, except for transfer taxes, if any. A copy of the Debenture is attached hereto (or evidence of loss, theft or destruction thereof).

If so able, the Corporation shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee (which is _____) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer").

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable to the undersigned upon conversion of this Debenture shall be made pursuant to registration of the Common Stock under the Securities Act or pursuant to an exemption from registration under the Act.

In the event of partial exercise, please reissue an appropriate Debenture(s) for the principal balance which shall not have been converted.

Check Box if Applicable:

|_| In lieu of receiving the shares of Common Stock issuable pursuant to this Notice of Conversion by way of DTC Transfer, the undersigned hereby requests that the Corporation issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

Date of Conversion: _____

Applicable Conversion Price: _____

Amount of Accrued and Unpaid
Interest on the Principal
Amount to be converted, if any: _____

Amount of Conversion Default Payments or Prepayment Default
Payments to be converted, if any: _____

Number of Shares of
Common Stock to be Issued: _____

Signature: _____

Name: _____

Address: _____

Exhibit 10.60

Placement Agency Agreement

January 25, 1999

The Zanett Securities Corporation
Tower 49, 31st Floor
12 East 49th Street
New York, NY 10017

Gentlemen:

This agreement ("Agreement") will confirm that Fidelity Holdings, Inc., a Nevada corporation (the "Company"), has retained The Zanett Securities Corporation ("Zanett" or the "Placement Agent") as its exclusive placement agent to assist the Company, during the 30 day period commencing on the date hereof (the "Term"), on a "best-efforts" basis, in connection with the placement of up to 2,750 units (the "Units") at a price of $4,127.27 per Unit, each Unit consisting of (i) $4,127.27 face amount of the Company's Convertible Term Debentures (each, a "Debenture"), convertible into shares of the Company's Common Stock, par value $0.01 per share (the "Common Stock"), (ii) 36.3636 shares of Common Stock (the "Purchased Shares"), (iii) Warrants to acquire 25.4545 shares of Common Stock, par value $0.01 per share, of Computer Business Sciences, Inc. a Delaware corporation ("CBS") (each, a "CBS Warrant" and collectively the "CBS Warrants") and (iv) Warrants to acquire 343.9394 shares of Common Stock (each, a "Warrant" and collectively the "Warrants"). The Debentures shall be in a form to be agreed upon by the Company and the Placement Agent. The shares of Common Stock issuable upon conversion of the Debentures are referred to herein as the "Conversion Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares" and the shares of CBS Common Stock issuable upon exercise of or otherwise pursuant to the CBS Warrants are referred herein as the "CBS Shares". The Debentures, the Purchased Shares, the CBS Warrants, the CBS Shares, the Warrants, the Conversion Shares and the Warrant Shares are collectively referred to herein as the "Securities." The Company agrees that, during the Term, Zanett shall have the exclusive right to offer and place the Securities and that all conversations, negotiations, documents and other materials exchanged between the Company and the Placement Agent shall not be disclosed or released to any third party without the prior written consent of Zanett, which consent shall not be unreasonably withheld or delayed. The Company acknowledges that certain of the aforementioned Securities may be purchased by affiliates of Zanett.

The Units are being offered to "accredited investors" in accordance with Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Each prospective investor ("Investor") subscribing to purchase the Units will be required to deliver, among other things, a Securities Purchase Agreement between the Company and the Investor (the "Securities Purchase Agreement") in form and substance reasonably satisfactory to Zanett and the Company, representing and warranting, among other things, that such Investor is an "accredited investor" as such term is defined in Regulation D. Contemporaneous with the execution and delivery of the Securities Purchase Agreement, the Investors shall execute and deliver a Registration Rights Agreement (the "Registration Rights Agreement") in form and substance reasonably satisfactory to Zanett and the Company pursuant to which the Company will agree to provide the Investors certain registration rights under the Securities Act with respect to the Conversion Shares and Warrant Shares.

The Securities Purchase Agreement, the form of Debenture, the Warrants and the Registration Rights Agreement are referred to herein collectively as the "Offering Documents." The offering of Units described in the Offering Documents is referred to herein as the "Offering."

1. Appointment of Placement Agent. Zanett is hereby appointed Placement Agent of the Company for the purposes of assisting the Company in finding qualified Investors to participate in the Offering. On the basis of the representations and warranties and subject to the terms and conditions contained herein, Zanett hereby accepts such agency and agrees to assist the Company in finding qualified Investors to participate in the Offering during the Term. Zanett's agency hereunder is not terminable by the Company except upon termination of the Offering or at the end of the Term. Upon termination of the Offering, all subscriptions received, if any, shall be returned to Investors without interest or deduction.

2. Closing; Placement Fee and Warrant; Expenses.

a. Closing. Upon satisfaction of the conditions to the closing contained in the Securities Purchase Agreement, the closings (each, a "Closing") of the purchase and sale of the Units shall take place at the offices of Klehr, Harrison, Harvey, Branzburg & Ellers LLP or such other mutually agreed place, at such time and date (the "Closing Dates") as may be agreed upon between the Placement Agent, the Investors and the Company.

b. Procedures at Closing. Counsel for the Placement Agent shall act as escrow agent for the Closings (the "Escrow Agent"). At each Closing:

(i) The Company shall deliver to the Escrow Agent, on behalf of the Placement Agent and the Investors, an opinion of the Company's outside legal counsel, dated as of the applicable Closing Date, in such form as may be reasonably acceptable to the Placement Agent and its counsel.

(ii) The Company shall deliver to the Escrow Agent certificates from the Company, signed by the President or a Vice President thereof, certifying that attached thereto is a true and correct copy of resolutions adopted by the Company's Board of Directors authorizing (A) the execution, delivery and performance of this Agreement, the Securities Purchase Agreement, the Registration Rights Agreement, the Debentures, the Warrants and other documentation related to the Offering, and (B) the issuance of the Purchased Shares and the reservation for issuance and issuance of the Conversion Shares and the Warrant Shares. CBS shall deliver to the Escrow Agent certificates from CBS, signed by the President or a Vice President thereof, certifying that attached thereto is a true and correct copy of resolutions adopted by CBS's Board of Directors authorizing (A) the execution, delivery and performance of the Securities Purchase Agreement and the CBS Warrants, and (B) the reservation for issuance of the CBS Shares. Each certificate shall also certify that such resolutions have not been modified, rescinded or amended and are in full force and effect.

(iii) The Company shall deliver to the Escrow Agent certificates of good standing of the Company and of CBS Corp., dated as of a recent date, from the Secretaries of States of their respective states of incorporation.

(iv) Each Investor shall deliver to the Escrow Agent two executed copies of the Securities Purchase Agreement and Registration Rights Agreement signed by such Investor, and the Company shall deliver to the Escrow Agent with respect to each Investor, two executed copies of its acceptance of the Securities Purchase Agreement and Registration Rights Agreement executed by such Investor.

(v) Each Investor shall have wire transferred immediately available funds to an escrow account designated by the Escrow Agent in an amount equal to that portion of the aggregate purchase price of the Units(s) being purchased by such Investor due at such Closing.

(vi) The Company shall have delivered to the Escrow Agent the duly executed Debentures and Warrants being purchased by the Investors, (and, at the First Closing, the duly executed CBS Warrants and certificates evidencing the Purchased Shares being purchased by the Investors) in such denominations as the Investors shall request.

(vii) The Company and the Placement Agent shall instruct the Escrow Agent to pay to the Company that portion of the purchase price (collectively, the "Purchase Price") for the Units subscribed for due at such Closing, less the Placement Agent Fee (as defined below) and other authorized expenses of the Offering, out of the funds on deposit in the escrow account received from Investors whose Securities Purchase Agreements have been accepted.

c. Placement Fee; Expenses. The Company covenants and agrees to pay to the Placement Agent at each Closing a fee (the "Placement Agent Fees") equal to six percent 6% of the aggregate Purchase Price paid at such Closing. Such Placement Agent Fee shall be delivered by the Escrow Agent to Zanett by wire transfer, in accordance with Zanett's written wiring instructions, from the funds on deposit in the escrow account simultaneously with payment for and delivery of the Units at each Closing under the Securities Purchase Agreement as provided in paragraph 2(a) above. In addition, the Placement Agent shall be entitled to receive from the Company a non-accountable expense allowance (the "Expense Allowance") equal to nine-tenths of one percent (0.9%) of the aggregate Purchase Price. Such Expense Allowance shall be delivered in the same manner as the Placement Agent Fee. In addition, the Company shall pay to the Placement Agent, on the first day of each calendar month during which any Debentures or Warrants are outstanding, a monitoring and financial advisory fee of One Thousand Seven Hundred Fifty Dollars ($1,750.00) for which the Placement Agent shall periodically consult with the Company concerning market conditions, investor perceptions of the Company and related matters.

d. Stock and Warrants. In addition to the Placement Agent Fees, at the First Closing under the Securities Purchase Agreement, the Company shall issue to the Placement Agent or to its officers set forth on Schedule 2(d), each of whom is an accredited investor (the "Zanett Officers"), as directed by the Placement Agent (i) 18.1818 shares of the Company's Common Stock for each Unit, (ii) CBS Warrants for 10.9091 CBS Shares for each Unit and (ii) Warrants, in substantially the form attached hereto as Exhibit A, to purchase, in the aggregate, 41.6667 shares of the Company's Common Stock for each Unit ("Placement Warrants"). At each of the Second Closing and the Third Closing under the Security Purchase Agreement, the Company shall issue to the Placement Agent or the Zanett Officers, as directed by the Placement Agent, Placement Warrants to purchase, in the aggregate, 65.1515 shares of the Company's Common Stock for each Unit. The shares of the Company's

Common Stock issuable upon exercise of the Placement Warrants shall hereinafter be referred to as the "Placement Warrant Shares." The Company shall grant the Placement Agent certain registration rights under the Securities Act with respect to the Placement Warrant Shares pursuant to the Registration Rights Agreement.

e. Expenses of Offering. The Company shall be responsible for and shall bear all expenses directly and necessarily incurred by it in connection with the Offering. In the event the Closing does not occur during the Term, the Company shall reimburse the Placement Agent for its reasonable attorneys' fees and expenses and up to $3,500 of other reasonable, actual and accountable out-of-pocket expenses incurred in connection with the Offering.

f. Non-Circumvention Period; Lockup Period; Additional Financing Period.

(i) The Company agrees that, during the period beginning on the date hereof and ending four (4) years following the later of the date hereof and the date of the Closing (as defined in Section 2(a) hereof) (the "Non-Circumvention Period"), it will not, without the prior written consent of the Placement Agent, negotiate or contract or have discussions concerning any such matters with any Investor or any other party introduced to the Company by Placement Agent, each of which are listed Schedule 2(f)(i) hereto to obtain additional financing in any form.

(ii) The Company agrees that, during the period beginning on the date hereof and ending two (2) years following the first Closing Date (the "Lock-Up Period"), it will not, without the prior written consent of the Placement Agent, contract with any other party to obtain additional financing in which any below market equity or equity-linked securities are issued ("Future Offerings"); provided, that if at such time the outstanding principal balance of, and accrued but unpaid interest on, the Debentures is less than 40% of the aggregate original principal amount of the Debentures, and such Future Offering is for an aggregate amount (including the aggregate exercise price of warrants or similar rights) of $1,000,000 or less, such consent shall not unreasonably withheld. In addition, and independent of the foregoing sentence, the Company will not conduct any Future Offering during the period beginning on the date hereof and ending one year after the conclusion of the Lock-Up Period unless it shall have first delivered to the Placement Agent written notice of such proposed Future Offering, including the terms and conditions thereof, and providing the Placement Agent an option, which option must be exercised within fifteen (15) days following delivery of such notice, to act as the placement agent for such Future Offering on terms, including fees, no less favorable to the Company as those set forth in such notice and to place the securities being offered by the Company in the Future Offering to the Investors or to such other persons or entities as the Placement Agent shall determine (the limitations referred to in this and the immediately preceding sentence are hereinafter collectively referred to as the "Capital Raising Limitation"). In the event that the Placement Agent does not exercise the foregoing option, the Company may proceed with such Future Offering on the terms and conditions set forth in the notice to the Placement Agent. The Capital Raising Limitation shall not apply to any transaction involving issuances of securities as consideration in a merger, consolidation or acquisition of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital), or as consideration for the acquisition of a business, product or license by the Company. The Capital Raising Limitation shall also not apply to (i) the issuance of securities pursuant to an underwritten public offering, (ii) the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities outstanding as of the date hereof or issued as part of the Offering, (iii) the grant of additional options or warrants, or the issuance of additional securities, under any Company stock option, bonus or restricted stock plan for the benefit of the Company's employees, consultants or directors, or (iv) the issuance of securities upon the exercise of warrants issued to a bank or other commercial financing institution as an "equity kicker" in connection with floor plan financing or financing of the acquisition of substantially all of the assets or equity securities of other entities. In the event that the Purchasers (as defined in the Securities Purchase Agreement) exercise their right to elect not to fund the second or third tranche of the Units (as described in the Securities Purchase Agreement), the provisions of the first sentence of this Section 2(f)(ii) shall no longer be applicable and, for purposes of the second sentence of this Section 2(f)(ii), the Capital Raising Limitations thereafter shall not apply to any Future Offering the terms and conditions of which are not materially more favorable to the investor than the second and third tranches under the Securities Purchase Agreement.

3. Representations and Warranties and Covenants.

a. The Company represents and warrants to Zanett that:

(i) This Agreement has been duly authorized, executed and delivered by the Company and, assuming the due execution by Zanett, constitutes a legal, valid and binding
agreement of the Company, enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, or (ii) to the extent the indemnification provisions contained in the Registration Rights Agreement may be limited by applicable federal or state securities laws.

(ii) The Company has delivered to Zanett true and complete copies of the SEC Documents (as defined in the Securities Purchase Agreement) filed by the Company on or after December 31, 1996 with the Securities and Exchange Commission (the "SEC") pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(iii) The Company recognizes and confirms that Zanett (i) will use and rely primarily on the SEC Documents and on information available from generally recognized public sources in performing the services contemplated by this Agreement without having independently verified the same; (ii) is authorized to assist the Company in the structuring of the Offering with any prospective purchaser who is an "accredited investor" as defined in Regulation D under the Securities Act and to provide copies of the SEC Documents and forms of the Securities Purchase Agreement and other Offering Documents to prospective purchasers of the Company's securities in connection with the performance of Zanett's services hereunder; and (iii) does not assume responsibility for the accuracy or completeness of the SEC Documents.

(iv) In addition to the foregoing, the Company hereby incorporates by reference all of the representations and warranties and covenants to be set forth in the Securities Purchase Agreement and the other Offering Documents with the same force and effect as if specifically set forth herein.

(v) So long as the Debentures remain outstanding, (i) the Company shall provide Zanett, within three (3) business days of the filing or preparation thereof, with such financial and other statements including, without limitation, management letters and consolidated financial statements as are provided to any other lenders to or security holders of the Company; (ii) in the event any current officer, director, employee, consultant or other agent ceases, subsequent to the date hereof, to have such relationship with the Company and such cessation has, or is likely to have, a material adverse effect on the Company, taken as a whole, the Company shall promptly notify Zanett of such event, which notification shall comprehensively describe such circumstances; (iii) the Company shall, on a regular basis, provide to Zanett updates of any material litigation and/or governmental proceedings which could reasonably be expected to have a material adverse effect on the business of the Company; and (iv) the Company shall promptly provide to Zanett notice of any event of default under any agreement or other document with any lender or holder of any security of the Company, which default reasonably could be expected to have a material adverse effect on the Company, taken as a whole. Zanett shall hold in confidence and shall not make any disclosure (except to an Investor who has agreed in writing to restrictions
on disclosure substantially equivalent to this Subsection) or use of (including without limitation market activities) any such information disclosed to it pursuant to clauses (i) through (iv) above which the Company determines in good faith to be confidential, and of which determination Zanett is so notified, unless (a) the release of such information is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction or (b) the information has been made generally available to the public other than by disclosure in violation of this or any other agreement. Anything contained herein to the contrary notwithstanding, Placement Agent's obligations to proceed with the Offering is conditioned upon Placement Agent's due diligence investigation of the Company. Zanett shall be fully informed by the Company of any events which might have a material affect on the financial condition of the Company. If, in Zanett's opinion, the condition of the Company, financial or otherwise, and its prospects are affected in a material and/or adverse manner and do not fulfill Zanett's expectations, Zanett shall have the sole discretion to review and determine its continued interest in the Offering. In the event that Zanett elects not to proceed with the Offering, this Agreement shall terminate.

(vi) So long as the Debentures remain outstanding, the Company shall make available, during regular business hours on one (1) Business Day's prior written notice, all records and books of account of the Company for inspection by Zanett. The Company shall permit Zanett, during regular business hours on one (1) Business Day's prior written notice, to inspect its properties.

(vii) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement and to issue the Placement Warrants in accordance with the terms hereof. The execution and delivery of this Agreement and the Placement Warrants by the Company and the consummation by it of the transactions contemplated hereby (including, without limitation, the issuance of the Placement Warrants and the reservation for issuance and issuance of the Placement Warrant Shares issuable upon exercise of the Placement Warrants) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, except for the shareholder approval described in Section 4(n) of the Securities Purchase Agreement.

(viii) The Placement Warrant and the Placement Warrant Shares issuable upon the exercise thereof are duly authorized and, upon issuance of the Placement Warrants in accordance with the terms hereof and the Warrant Shares upon exercise of the Placement Warrants in accordance with the terms thereof, will be validly issued, fully paid and non-assessable, and free from all taxes, liens and charges with respect to the issue thereof and shall not be subject to preemptive rights or other

similar rights of the shareholders of the Company, other than restrictions on transfer imposed by federal and state securities laws.

(ix) The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby will not (A) result in a violation of the Company's Certificate of Incorporation or By-laws or (B) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which the Company is a party, or, to its knowledge, result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Company or by which any property or asset of the Company is bound or affected (except, with respect to clause (B), for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a material adverse effect on the operation, properties, prospects or financial condition of the Company ("Material Adverse Effect")). The Company is not in violation of its Certificate of Incorporation or By-laws and is not in default (and no event has occurred which with notice or lapse of time of both would put the Company in default) under, nor has there occurred any event giving others (with notice or lapse of time or both) any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company is a party, except for possible defaults as would not, individually or in the aggregate, have a Material Adverse Effect. The business of the Company is not being conducted, and shall not be conducted, in violation of any law, ordinance or regulation of any governmental entity, except for possible violations which either singly or in the aggregate do not have a Material Adverse Effect. Except as specifically contemplated by this Agreement and as required under the Securities Act and any applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement in accordance with the terms hereof.

(x) The Company shall at all times have authorized, and reserved for the purpose of issuance, a sufficient number of Placement Warrant Shares to provide for the full exercise of the outstanding Placement Warrants.

(xi) The Company shall promptly secure the listing of the Placement Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Placement Warrant Shares from time to time issuable upon exercise of the Placement Warrants.

b. The Zanett Officers each individually represent and warrant to the Company that:

(i) The Zanett Officer is acquiring the Placement Warrants and the Placement Warrant Shares for its own account and not with a present view towards the public sale or distribution thereof.

(ii) The Zanett Officer is an "Accredited Investor" as that term is defined in Rule 501(a) of Regulation D.

(iii) The Zanett Officer understands that the Placement Warrants and the Placement Warrant Shares are being issued to the Zanett Officer in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Zanett Officer's compliance with, the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to determine the availability of such exemptions and the eligibility of the Zanett Officer to acquire the Placement Warrants and the Placement Warrant Shares.

(iv) The Zanett Officer understands that (i) except as provided in the Registration Rights Agreement, the sale or resale of the Placement Warrants and the Placement Warrant Shares issuable upon exercise thereof have not been and are not being registered under the Securities Act or any state securities laws, and may not be transferred unless (a) the resale of the Securities has been registered thereunder; or (b) the Zanett Officer shall have delivered to the Company an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration; or (c) the Securities are sold under Rule 144 promulgated under the Securities Act (or a successor rule) ("Rule 144"); or (d) the Securities are sold or transferred to a non-broker dealer affiliate of the Zanett Officer who agrees to sell or otherwise transfer such securities only in accordance with the provisions of the terms hereof and who is an Accredited Investor; and (ii) neither the Company nor any other person is under any obligation to register such Securities under the Securities Act or any state securities laws (other than pursuant to the Registration Rights Agreement). Notwithstanding the foregoing or anything else contained herein to the contrary, such securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement so long as the pledgee is an accredited investor.

(v) This Agreement has been duly and validly authorized, executed and delivered on behalf of Placement Agent and duly and validly executed and delivered by each Zanett Officer and is the valid and binding agreement of each of them enforceable against each of them in accordance with its terms.

(vi) Neither the Placement Agent nor the Zanett Officers have any authority to act on behalf of, or otherwise bind, the Company.

c. The Placement Agent represents and warrants to the Company that:

(i) The Placement Agent is (i) a registered broker-dealer under the Securities Exchange Act of 1934, (ii) a member in good standing of the National Association of Securities Dealers, Inc. ("NASD") and (iii) registered as a broker-dealer in any state in which it is required to be in order to offer and sell the Securities in such state.

(ii) The Placement Agent will cooperate with the Company to ensure that the offering and sale of the Securities complies with the requirements of Rule 506, including, without limitation, the general conditions contained in Regulation D, the federal securities laws and the state securities or "blue sky" laws of the jurisdiction in which the Securities are offered, and the Placement Agent will not make an offer of Securities in any jurisdictions in which such offer would be unlawful. The Placement Agent shall fully conform with all Federal, state and NASD rules and regulations (including without limitation those described in NASD Notices to Members) with respect to escrow provisions and requirements.

(iii) The Placement Agent will not offer the Securities by any form of general solicitation or general advertising (as prohibited by Rule 502(c) of Regulation D), including any communication published in any newspaper, magazine or electronic media, or by any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. Additionally, the Placement Agent will not employ any sales literature except the Securities Purchase Agreement.

(iv) The Placement Agent has the necessary power and authority to enter into this Agreement and to consummate the transactions contemplated hereby.

(v) The Placement Agent is a corporation duly organized and validly existing under the laws of the state of Delaware; and the consummation of the transactions herein contemplated will not result in any violation of, or be in conflict with, or constitute a default under, any material agreement or instrument to which the Placement Agent is a party or by which the Placement Agent or its properties are bound, or to its knowledge, any judgment, decree, order or any statute, rule or regulation applicable to the Placement Agent.

(vi) Neither the Placement Agent nor any of its directors or officers are subject to disqualification under Regulation D or applicable state securities laws.

4. Publicity. The Company shall not make any reference to Zanett, the Zanett Officers or to any of their affiliates in any release or other communication without Zanett's prior written consent, which shall not be unreasonably withheld or delayed; provided, that the foregoing shall not prohibit the Company from complying with applicable law. Without Zanett's prior written consent, which shall not be unreasonably withheld or delayed, no advice rendered by Zanett in connection with the services performed by Zanett pursuant to this Agreement will be quoted by the Company, its affiliates or representatives nor will any such advice be referred to in any report, document, release or other communication, whether oral or written, prepared or issued or transmitted by such person, except to the extent required by law (in which case the appropriate party shall so advise Zanett in writing prior to such use and shall consult with Zanett with respect to the form and timing of the disclosure).

5. Indemnification and Contribution.

a. To the extent permitted by law, the Company will indemnify, hold harmless and defend Zanett and each of its directors, officers, partners, members, employees, agents and each person who controls Zanett within the meaning of the Securities Act or the Exchange Act, if any, (each, a "Zanett Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any transaction contemplated by this Agreement, the retention of Zanett as Placement Agent under this Agreement, the performance of services by Zanett hereunder or any involvement or alleged involvement of Zanett in the Offering or (ii) any breach of any of the Company's representations, warranties or covenants contained herein. The Company shall reimburse each of the Zanett Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them

in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 5(a) shall not (i) apply in instances where the Claims were the result of Zanett's gross negligence or based on Zanett's wilful misconduct, and (ii) apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld.

b. To the extent permitted by law, Zanett will indemnify, hold harmless and defend the Company and each of its directors, officers, partners, members, employees, agents and each person who controls the Company within the meaning of the Securities Act or the Exchange Act, if any, (each, a "Company Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any failure by Zanett to comply with Federal, state or any other applicable securities laws or (ii) any breach of any of Zanett's representations, warranties or covenants contained herein. Zanett shall reimburse each of the Company Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 5(b) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of Zanett, which consent shall not be unreasonably withheld.

c. Promptly after receipt by a Zanett Indemnified Person or Company Indemnified Person, as the case may be (each an "Indemnified Person") under this Section 5 of notice of the commencement of any action (including any governmental action), such Indemnified Person shall, if a Claim in respect thereof is made against the Company under Section 5(a) or against Zanett under Section 5(b), deliver to the Company or Zanett, as the case may be (each an "Indemnifying Party") a written notice of the commencement thereof, and the Indemnifying Person shall have the right to participate in, and, to the extent the Indemnifying Person so desires, to assume control of the defense thereof with counsel mutually satisfactory to the Indemnifying Person and the Indemnified Person; provided, however, that an Indemnified Person shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnifying Person, if, in the reasonable opinion of counsel retained by the Indemnified Person, the representation by such counsel of the Indemnified Person and the Indemnifying Person would be inappropriate due to actual or potential differing interests between such Indemnified Person and any other party represented by the Indemnifying Person's counsel in such proceeding. The Indemnifying Person shall pay for only one separate legal counsel for the Indemnified Persons, and such legal counsel shall be selected by the Indemnifying Person. The failure to deliver written notice to the Indemnifying Person within a reasonable time of the commencement of any such action shall not relieve the Indemnifying Person of any liability to the Indemnified Person under this Section 5, except to the extent that the Indemnifying Person is actually prejudiced in its ability to defend such action. The indemnification required by this Section 5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

d. To the extent any indemnification by the Indemnifying Person of an Indemnified Person is prohibited or limited by law or otherwise unavailable in respect of any Claim, the Indemnifying Person agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 5 to the fullest extent permitted by law. In this regard, the Indemnifying Person shall contribute to the amount paid or payable by such Indemnified Person as a result of any such Claim (i) in such portion as is appropriate to reflect the relative benefits received by the Indemnifying Person, on the one hand, and the Indemnified Person, on the other, from the structuring and issuance of the securities in the Offering or any other transaction in which Zanett rendered services hereunder or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Indemnifying Person, on the one hand, and of the Indemnified Person, on the other, in connection with untrue statements or omissions or other actions (or alleged untrue statements, omissions or other actions) which resulted in such Claim as well as any other relevant equitable considerations. The relative benefits received by the Indemnifying Person, on the one hand, and the Indemnified Person, on the other, shall be deemed to be in the same proportion as the total gross proceeds received by the Indemnifying Person in the Offering or any other financing bears to such Indemnified Person's compensation. The relative fault of the Indemnifying Person on the one hand and of the Indemnified Person on the other shall be determined by reference to, among other things, whether such untrue statements or omissions or other actions (or alleged untrue statements, omissions or other actions) relate to information supplied or action taken by the Indemnifying Person, on the one hand, by the Indemnified Person, on the other, and the relevant persons' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statements, omission or actions. The amount paid or payable by a party as a result of the Claim shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The parties agree that it would not be just and equitable if contribution pursuant to this Section 5 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above.

e. The aforesaid indemnity and contribution agreements shall apply to any related activities engaged in by any Indemnified Person prior to this date and to any modification of this Agreement, and shall remain in full force and effect regardless of any investigation made by or on behalf of either party or any of its respective agents, employees, officers, directors or controlling persons and shall survive the issuance of any securities in any transaction referred to hereunder (including the Offering) and any termination of this Agreement or Placement Agent's engagement hereunder. The Indemnifying Person agrees to promptly notify the Indemnified Person of the commencement of any litigation or proceeding against it or any of its directors, officers, agents or employees in connection with the transactions contemplated hereby.

f. The Indemnifying Person also agrees that no Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Indemnifying Person, its owners, creditors or security holders for or in connection with advice or services rendered or to be rendered by Zanett pursuant to this Agreement, the transactions contemplated hereby or any Indemnified Person's actions or inactions in connection with any such advice, services or transactions except for liabilities (and related expenses) of the Indemnifying Person that are determined by a final judgment of a court of competent jurisdiction to have resulted primarily from such Indemnified Person's gross negligence or wilful misconduct in connection with any such advice, actions, inactions or services.

6. Survival of Certain Provisions. The representations, warranties, covenants and provisions contained in Section 2(f), Section 3, Section 4 and Section 5 hereof shall survive in full force and effect until that date which is three (3) years from the date hereof (or such longer period as may be specified in such provisions) regardless of (a) any completion or termination of any financing contemplated by this Agreement (including the Offering), (b) any termination of this Agreement, or (c) any investigation made by or on behalf of Placement Agent or any affiliate of Placement Agent, and shall be binding upon, and shall inure to the benefit of, any successors, assigns, heirs and personal representatives of the Company, Zanett, the Indemnified Parties and any holder of Placement Warrants.

7. Miscellaneous.

a. All notices, requests, demands and other communications which are required or may be given hereunder shall be in writing and shall be deemed to have been duly given when delivered personally, receipt acknowledged or five (5) days after being sent by registered or certified mail, return receipt requested, postage prepaid. All notices shall be made to rhe parties at the addresses designated above or at such other or different addresses which party may subsequently provided with notice thereof, and, to their respective legal counsel, as follows:

(i) If to Placement Agent, to

The Zanett Securities Corporation
Tower 49, 31st Floor
12 East 49th Street
New York, NY 10017
Attention: Claudio Guazzoni

- with a copy to -

Klehr, Harrison, Harvey, Branzburg & Ellers
1401 Walnut Street
Philadelphia, PA 19102
Attention: Lawrence D. Rovin, Esquire

(ii) If to the Company, to

Fidelity Holdings, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Attention: Doron Cohen, President

-with a copy to -

Littman Krooks Roth & Ball P.C.
655 Third Avenue, 20th Floor
New York, New York 10017
Attention: Mitchell C. Littman, Esquire

b. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York (without regard to its conflict of laws provisions). The Company hereby agrees to submit to the exclusive jurisdiction of an arbitration panel of the National Association of Securities Dealers, Inc. located in the City of New York in connection with any suit, action or proceeding related to this Agreement or any of the matters contemplated hereby, irrevocably waives any defense of lack of personal jurisdiction and irrevocably agrees that all claims in respect of any suit, action or proceeding may be heard and determined in by such panel. The Company irrevocably waives, to the fullest extent it may effectively do so under applicable law any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought before any such court and any claims that any such suit, action or proceeding brought in any such arbitration panel has been brought in an inconvenient forum. Each party further agrees to pay or reimburse the other party for all reasonable costs and expenses incurred by the other party in connection with the enforcement of any of its rights under this Agreement, including without limitation, all attorneys' fees and expenses of its counsel.

d. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

e. This Agreement may not be modified or amended except in writing duly signed by the parties hereto.

f. If any term, provision, covenant or restriction contained in this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions contained in this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

g. Each party to this Agreement has participated in the negotiation and drafting of this Agreement. As such, the language used herein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

Please sign and return the original and one copy of this letter to indicate your acceptance of the terms set forth herein whereupon this letter and your acceptance shall constitute a binding agreement between you and the Company.

Very truly yours,

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

Accepted and Agreed to this 25th day of January, 1999.

THE ZANETT SECURITIES CORPORATION

By: /s/ Claudio Guazzoni

Name: Claudio Guazzoni
Title: President

/s/ Claudio Guazzoni

Claudio Guazzoni

/s/ David McCarthy

David McCarthy

/s/ Tony Milbank

Tony Milbank

Schedule 2(d)

Officer		Number of Warrants per Unit	Number of Shares of Common Stock per Unit	Number of CBS Warrants per Unit
Claudio Guazzoni	1st:	15.6250	6.8182	4.0909
	2nd:	24.4318		
	3rd:	24.4318		
David McCarthy	1st:	15.6250	6.8182	4.0909
	2nd:	24.4318		
	3rd:	24.4318		
Tony Milbank	1st:	10.4167	4.5455	2.7273
	2nd:	16.2879		
	3rd:	16.2879		
Total				

Exhibit 10.61

SECURITIES PURCHASE AGREEMENT

SECURITIES PURCHASE AGREEMENT (this "Agreement"), dated as of January 25, 1999 by and among FIDELITY HOLDINGS, INC., a corporation organized under the laws of the State of Nevada (the "Company"), with headquarters located at 80-02 Kew Gardens Road, Suite 5000, Kew Gardens, New York 11415, COMPUTER BUSINESS SCIENCES, INC., a corporation organized under the laws of the State of Delaware and a wholly-owned subsidiary of the Company ("CBS") and each of the purchasers (collectively, the "Purchasers") set forth on the execution pages hereof (the "Execution Pages").

WHEREAS:

A. The Company, CBS and each Purchaser are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the provisions of Regulation D ("Regulation D"), as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") and Section 4(2) of the Securities Act.

B. The Company and CBS desire to sell, and the Purchasers, severally and not jointly, desire to purchase, upon the terms and conditions stated in this Agreement up to 2,750 Units (the "Units"), each Unit consisting of no less than one and up to three tranches, (a) in the first tranche, (i) a Convertible Debenture in the principal amount of One Thousand Dollars ($1,000) of the Company, in the form attached hereto as Exhibit A (the "Debentures"), convertible on certain terms and conditions into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), (ii) 36.3636 shares of Common Stock, (iii) warrants (the "Warrants"), in the form attached hereto as Exhibit B, to acquire 83.3333 shares of Common Stock and (iv) warrants (the "CBS Warrants") in the form attached hereto as Exhibit C, to acquire 25.4545 shares of common stock, par value $0.01 per share, of CBS (the "CBS Shares"), and (b), in the second tranche, (i) a Debenture in the principal amount of One Thousand Five Hundred Sixty-Three and 64/100 Dollars ($1,563.64) and (ii) Warrants to acquire 130.3030 shares of Common Stock and (c) in the third tranche, (i) Debentures in an aggregate principal amount of One Thousand Five Hundred Sixty-Three and 64/100 Dollars ($1,563.64) and (ii) Warrants to purchase 130.3030 shares of Common Stock. The shares of Common Stock issuable upon conversion of or otherwise pursuant to the Debentures are referred to herein as the "Conversion Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares." The Debentures, the Common Stock, the Warrants, the CBS Warrants, the CBS Stock, the Conversion Shares and the Warrant Shares are collectively referred to herein as the "Securities."

C. Contemporaneous with the execution and delivery of this Agreement, the Company and the Purchasers are executing and delivering a Registration Rights Agreement, in the form
attached hereto as Exhibit D (the "Registration Rights Agreement"), pursuant to which the Company has agreed to provide certain registration rights under the Securities Act and the rules and regulations promulgated thereunder, and applicable state securities laws.

NOW, THEREFORE, the Company and the Purchasers hereby agree as follows:

1. PURCHASE AND SALE OF UNITS

a. Purchase of Units. The issuance, sale and purchase of the Debentures, the Common Stock, the CBS Warrants and the Warrants shall occur in three tranches with separate closings, hereinafter referred to as the "First Closing," the "Second Closing" and the "Third Closing," respectively. Each of the First Closing, the Second Closing and the Third Closing is hereinafter referred to as a "Closing". On the date of each Closing, subject to the satisfaction (or waiver) of the relevant conditions set forth in Section 6 and Section 7 below, the Company shall issue and sell to each Purchaser, and each Purchaser severally (but not jointly) agrees to purchase from the Company, such Units for the relevant purchase price as is set forth on such Purchaser's Execution Page attached hereto (the "Purchase Price"). Each Purchaser's obligation to purchase Units hereunder is distinct and separate from each other Purchaser's obligation to purchase and no Purchaser shall be required to purchase hereunder more than the principal amount of its Debentures and the number of its Common Stock, CBS Warrants and Warrants set forth on such Purchaser's Execution Page hereto notwithstanding any failure by any other Purchaser to purchase Units hereunder nor shall any Purchaser have any liability by reason of any such failure by any other Purchaser.

b. Form of Payment. At each Closing, each Purchaser shall pay the aggregate Purchase Price of the Securities being purchased by such Purchaser hereunder at such Closing by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, in each case, against delivery of the duly executed Debentures, certificates representing the Common Stock and duly executed CBS Warrants (at the First Closing only) and duly executed Warrants being purchased by such Purchaser and the Company shall deliver such Debentures, certificates, Warrants and CBS Warrants, each bearing the restrictive legend set forth in Section 2(f), against delivery of such aggregate Purchase Price.

c. Closing Date. Subject to the satisfaction (or waiver) of the relevant conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Units shall be (i) in the case of the First Closing, 12:00 noon Eastern Time on January 25, 1999 and (ii) in the case of the Second Closing and the Third Closing, 12:00 noon Eastern Time on the fifth (5th) trading day following notification of satisfaction (or waiver) of the relevant conditions to such Closing and (iii) in the case of the Third Closing 12:00 noon Eastern Time on the fifth (5th) trading day following notification of satisfaction (or waiver) of the relevant conditions to such Closing, or, in each case, such other time as may be mutually agreed upon by the Company and the Purchasers. The date of the First Closing, the Second Closing, or the Third Closing, as the case may be, shall hereinafter be referred to as the "First Closing Date," "Second Closing Date," or the "Third Closing Date," respectively. Each Closing shall occur at the offices of Klehr, Harrison, Harvey, Branzburg & Ellers, LLP, 1401 Walnut Street, Philadelphia, Pennsylvania 19102.

2. PURCHASERS' REPRESENTATIONS AND WARRANTIES

Each Purchaser severally represents and warrants to the Company as follows:

a. Investment Purpose. The Purchaser is purchasing the Securities for the Purchaser's own account, not as nominee or agent, for investment purposes only and not with a present view towards the public sale or distribution thereof, except pursuant to sales that are exempt from the registration requirements of the Securities Act and/or sales registered under the Securities Act. The Purchaser understands that the Purchaser must bear the economic risk of this investment indefinitely, unless the Securities are registered pursuant to the Securities Act and any applicable state securities or blue sky laws or an exemption from such registration is available, and that the Company has no present intention of registering the resale of any such Securities other than as contemplated by the Registration Rights Agreement. Notwithstanding anything in this Section 2(a) to the contrary, by making the representations herein, the Purchaser does not agree to hold the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time, provided that any such deposition shall be in accordance with or pursuant to a registration statement or an exemption under the Securities Act. By executing this Agreement, the Purchaser further represents that the Purchaser does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. The Purchaser has not been formed for the specific purpose of acquiring the Securities. The Purchaser is not a registered broker-dealer and is not engaged in the business of being a broker-dealer.

b. Accredited Investor Status. The Purchaser is an "Accredited Investor" as that term is defined in Rule 501(a) of Regulation D.

c. Reliance on Exemptions. The Purchaser understands that the Units are being offered and sold to the Purchaser in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of the Purchaser to acquire the Units. The Purchaser understands that the resale of Securities is "restricted" under applicable U.S. Federal and state securities laws and that, pursuant to these laws, the Purchaser must hold the Securities indefinitely unless they are registered for resale with the Securities and Exchange

Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The Purchaser acknowledges that the Company has no obligation to register or qualify the Securities for resale except as set forth in the Registration Rights Agreement. The Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company which are outside of the Purchaser's control.

d. Information. The Purchaser and its counsel have been furnished all materials relating to the business, management, finances and operations of the Company and of CBS materials relating to the offer and sale of the Units which have been specifically requested by the Purchaser or its counsel. The Purchaser and its counsel have been afforded access and the opportunity to ask questions of the Company and have received what the Purchaser believes to be satisfactory answers to any such inquiries. Although neither such inquiries nor any other due diligence investigation conducted by the Purchaser or its counsel or any of its representatives shall modify, amend or affect the Purchaser's right to rely on the Company's representations and warranties contained in Section 3 below, Purchaser acknowledges and agrees that it has conducted its own due diligence investigation of the Company and CBS. The Purchaser understands that its investment in the Units involves a high degree of risk. Specifically, Purchaser acknowledges that CBS, following the merger described in Section 4(k) below, will be a private company engaged in developing technology which may never prove to become commercially accepted and that no assurance can be given that CBS will effect an initial public offering in the near future or ever.

e. Governmental Review. The Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Units. THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF CERTAIN STATES AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS AGREEMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

f. Transfer or Resale. The Purchaser understands that (i) except as provided in the Registration Rights Agreement, the sale or resale of the Securities have not been and are not being registered under the Securities Act or any state securities laws, and may not be transferred unless (a) the resale of the Securities has been registered thereunder, or (b) the Purchaser shall have delivered to the Company an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the Securities to be sold or transferred may be sold or transferred under an exemption from such registration, or (c) sold under Rule 144 promulgated under the Securities Act (or a successor rule) ("Rule 144"), or (d) sold or transferred to an affiliate of the Purchaser which agrees in writing to be bound by the terms hereof and which makes written representations and warranties as set forth in this Section 2; and (ii) neither the Company nor any other person is under any obligation to register such Securities under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case, other than pursuant to the Registration Rights Agreement).

g. Legends. The Purchaser understands that the Debentures, the certificates for the Common Stock, the CBS Warrants and the Warrants and, until such time as the Conversion Shares, Warrant Shares and/or CBS Shares have been registered under the Securities Act as contemplated by the Registration Rights Agreement or otherwise may be sold by the Purchaser under Rule 144, the certificates for the Conversion Shares, Warrant Shares and CBS Shares, may bear a restrictive legend in substantially the following form:

The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state of the United States. The securities represented hereby may not be offered or sold in the absence of an effective registration statement for the securities under applicable securities laws unless offered, sold or transferred under an
available exemption from the registration requirements of those laws.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which such legend is stamped, if, unless otherwise required by state securities laws, (a) the resale of such Security is registered pursuant to an effective registration statement under the Securities Act or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the Securities

Act or (c) such holder provides the Company with reasonable assurances that the resale of such Security is covered by Rule 144(k). The Purchaser agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, only pursuant to an effective registration statement or under an exemption from the registration requirements of the Securities Act. In the event the above legend is removed from any Security subject to an effective registration statement and thereafter the effectiveness of the registration statement covering such Security is suspended or the Company determines that a supplement or amendment thereto is required by applicable securities laws, then upon reasonable advance notice to the Purchaser the Company may require that the above legend be placed on any such Security subject to an effective registration statement, or may place appropriate "stop transfer" instructions with its transfer agent, and the Purchaser shall cooperate in the prompt replacement of such legend. The Company shall use its best efforts to remove such suspension or file such amendment as promptly as possible, and such legend shall be removed or "stop transfer" instructions canceled, when such Security again may be sold pursuant to an effective registration statement or such legend otherwise may be removed under conditions (b) or (c) above.

h. Authorization; Enforcement. This Agreement , when executed and delivered by the Purchaser, will constitute the valid and legally binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of a specific performance, injunctive relief, or other equitable remedies, or (b) to the extent the indemnification provisions contained in the Registration Rights Agreement may be limited by applicable federal or state securities laws.

i. Residency. The Purchaser is a resident of the jurisdiction set forth under the Purchaser's name on the Execution Page hereto executed by such Purchaser.

j. No General Solicitation. The Purchaser is unaware of, is no way relying on, and did not become aware of the offering of the Securities through or as a result of, any form of general solicitation or general advertising including, without limitation, any article, notice, advertisement or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, in connection with the offering and sale of the Securities and is not subscribing for Securities and did not become aware of the offering of the Securities through or as a result of any seminar or meeting to which the Purchaser was invited by, or any solicitation of a subscription by, a person not previously known to the Purchaser in connection with investments in securities generally.

k. No Finders. The Purchaser has taken no action which would give rise to any claim by any person for brokerage commissions, finders' fees or the like relating to this Agreement or the transactions contemplated hereby, except for Zanett Securities Corporation, the sole placement agent in connection with the offering of Securities, whose fees shall be the sole responsibility of the Company.

l. Knowledge and Experience. The Purchaser has such knowledge and experience in financial, tax, and business matters, and, in particular, investments in securities, so as to enable it to utilize the information made available to it in connection with the offering of the Securities to evaluate the merits and risks of an investment in the Securities and the Company and to make an informed investment decision with respect thereto. The Purchaser is not relying on the Company or any of its employees or agents with respect to the legal, tax, economic and related considerations of an investment in the Securities, and the Purchaser has relied on the advice of, or has consulted with, only his own advisors. The Purchaser has significant prior investment experience, including investment in non-listed and non-registered securities. The Purchaser is knowledgeable about investment considerations in development-stage companies. The Purchaser has a sufficient net worth to sustain a loss of its entire investment in the Company in the event such a loss should occur. The Purchaser's overall commitment to investments which are not readily marketable is not exces sive in view of its net worth and financial circumstances and the purchase of the Securities will not cause such commitment to become excessive. The investment is a suitable one for the Purchaser. The Purchase has reviewed or had the opportunity to review the Company's public filings under the Securities Exchange Act of 1934 (the "Exchange Act") as filed with the SEC.

m. No Need for Liquidity. The Purchaser has adequate means of providing for such Purchaser's current financial needs and foreseeable contingencies and has no need for liquidity of the investment in the Securities for an indefinite period of time.

n. Limited Trading Market of the Company. The Purchaser represents and warrants that it understands that the Common Stock thinly trades and no assurance can be given that an active market for the Common Stock will develop or be maintained.

o. No Trading Market for CBS. The Purchaser understands and acknowledges that there is no trading market for CBS securities nor is there any assurance that such market shall ever develop or be maintained.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND CBS.

a. The Company represents and warrants to each Purchaser as follows:

(i) Organization and Qualification. The Company and each of its subsidiaries is a corporation duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated, and has the requisite corporate power to own its properties and to carry on its business as it is now being conducted. The Company and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where the failure so to qualify would have a Material Adverse Effect. "Material Adverse Effect" means any material adverse effect on (i) the Securities, (ii) the ability of the Company to perform its obligations hereunder and under the Debentures, the Warrants or the Registration Rights Agreement or (iii) the business, operations, properties, financial condition or previously publicly announced prospects of the Company and its subsidiaries, taken as a whole.

(ii) Authorization; Enforcement. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Debentures, the Warrants and the Registration Rights Agreement, to issue and sell the Debentures, the Common Stock and the Warrants, in accordance with the terms hereof and to issue Conversion Shares upon conversion of the Debentures in accordance with the terms of the Debentures and to issue the Warrant Shares upon exercise of the Warrants in accordance with the terms of such Warrants; (ii) the execution, delivery and performance of this Agreement, the Debentures, the Warrants and the Registration Rights Agreement by the Company and the consummation by it of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Debentures, Common Stock and Warrants and the issuance and reservation for issuance of the Conversion Shares and Warrant Shares) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board or Directors or its stockholders is required (under the rules promulgated by the National Association of Securities Dealers ("NASD") or otherwise, except for the shareholder approval required pursuant to Rule 4310(a)(25)(H) promulgated by the NASD); (iii) this Agreement has been duly executed and delivered by the Company; and (iv) assuming due execution and delivery of this Agreement, the Placement Agency Agreement and the Registration Rights Agreement by parties other than the Company and compliance by Zanett with applicable Federal and state securities laws, this Agreement constitutes, and, upon execution and delivery by the Company of the Debentures, the Warrants and the Registration Rights Agreement, such instruments and agreements will constitute, valid and binding obligations of the Company enforceable against the Company in accordance with their terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, or (ii) to the extent the indemnification provisions contained in the Registration Rights Agreement may be limited by applicable federal or state securities laws.

(iii) Capitalization. The capitalization of the Company and CBS as of the date hereof, including the authorized capital stock, the number of shares issued and outstanding, the number of shares issuable and reserved for issuance pursuant to stock option plans, the number of shares issuable and reserved for issuance pursuant to securities exercisable for, or convertible into or exchangeable for any shares of capital stock and the number of shares to be reserved for issuance upon conversion of Debentures and exercise of Warrants is set forth on Schedule 3(a)(iii). All of such outstanding shares of capital stock have been, or upon issuance will be, validly issued, fully paid and nonassessable. No shares of capital stock of the Company (including the Conversion Shares and the Warrant Shares) are subject to preemptive rights or any other similar rights of the stockholders of the Company or any liens or encumbrances, pursuant to the Company's Certificate of Incorporation or bylaws or any agreement to which the Company is a party. Except for the obligation of the Company to issue the Conversion Shares in accordance with the terms of the Debentures and the Warrant Shares in accordance with the terms of the Warrants and except as disclosed in Schedule 3(a)(iii), as of the date of this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exercisable or exchangeable for, any shares of capital stock of the Company or any of its subsidiaries, or arrangements by which the Company or any of its subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its subsidiaries, and (ii) there are no agreements or arrangements under which the Company or any of its subsidiaries is obligated to register the sale of any of its or their securities under the Securities Act (except the Registration Rights Agreement). Except as set forth on Schedule 3(a)(iii), there are no securities or instruments containing antidilution or similar provisions that will be triggered by the issuance of the Securities in accordance with the terms of this Agreement, the Debentures or the Warrants. The Company has furnished to each Purchaser true and correct copies of the Company's and CBS's Certificates of Incorporation as in effect on the date hereof ("Certificates of Incorporation"), the Company's and CBS's By-laws as in effect on the date hereof (the "By-laws"), and all other instruments and agreements governing securities convertible into or exercisable or exchangeable for capital stock of the Company or CBS.

(iv) Issuance of Shares. The Conversion Shares and Warrant Shares are duly authorized and reserved for issuance, and, upon conversion of the Debentures in accordance with the terms of the Debentures, and exercise of the

Warrants in accordance with the terms thereof, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances and will not be subject to preemptive rights or other similar rights of stockholders of the Company and will not impose personal liability upon the holder thereof other than restrictions on transfer imposed by Federal and state securities laws.

(v) No Conflicts. Except as set forth in Schedule 3(a)(v), the execution, delivery and performance of this Agreement, the Debentures, the Warrants and the Registration Rights Agreement by the Company, and this Agreement and the CBS Warrants by CBS and the consummation by the Company and CBS of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance, as applicable, of the Common Stock, Warrants, Conversion Shares and Warrant Shares, CBS Warrants and CBS Shares) will not (i) result in a violation of the Certificates of Incorporation or By-laws or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or, to the Company's knowledge, result in a violation of any material law, rule, regulation, order, judgment or decree (including U.S. federal and state securities laws and regulations and rules or regulations of any self-regulatory organizations to which either the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except, with respect to clause (ii), for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation, By-laws or other organizational documents and, to the Company's knowledge, neither the Company nor any of its subsidiaries is in default (and no event has occurred which, with notice or lapse of time or both, would put the Company or any of its subsidiaries in default) under, nor has there occurred any event giving others (with notice or lapse of time or both) any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, except for actual or possible violations, defaults or rights as would not, individually or in the aggregate, have a Material Adverse Effect. The businesses of the Company and its subsidiaries are not being conducted, and shall not be conducted so long as any Debentures are outstanding, in violation of any law, ordinance or regulation of any governmental entity, except for actual or possible violations, if any, the sanctions for which either singly or in the aggregate would not have a Material Adverse Effect. Except as specifically contemplated by this Agreement and as required under the Securities Act and any applicable state securities laws, the Company is not required to obtain any consent, approval, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement, the Debentures, the Warrants or the Registration Rights Agreement, in each case in accordance with the terms hereof or thereof, the failure to obtain would have a Material Adverse Effect. Except as disclosed in Schedule 3(a)(v), the Company is not in violation of the listing requirements of the Nasdaq Smallcap Market ("NASDAQ") and the Company does not reasonably anticipate that the Common Stock will be delisted by NASDAQ for the foreseeable future.

(vi) SEC Documents, Financial Statements. Since December 31, 1996, the Company has timely filed (giving effect to applicable extension periods) all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (all of the foregoing filed prior to the date hereof and after December 31, 1995, and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein, being hereinafter referred to herein as the "SEC Documents"). The Company has delivered to the Purchasers true and complete copies of the SEC Documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be updated or amended under applicable law, where the failure to update or amend would have a Material Adverse Effect. As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to typical year-end audit adjustments). Except as set forth in the financial statements of the Company included in the SEC Documents filed prior to the date hereof, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to the date of such financial statements and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to

be reflected in such financial statements, which liabilities and obligations referred to in clauses (i) and (ii), individually or in the aggregate, are not material to the financial condition or operating results of the Company. Neither the Company nor any of its officers, directors, employees or agents have provided Purchasers with any material nonpublic information.

(vii) Absence of Certain Changes. Since December 31, 1997, there has been no change and no development in the business, properties, operations, financial condition, results of operations or previously publicly announced prospects of the Company or any of its subsidiaries which has had or reasonably could have a Material Adverse Effect, except as disclosed in Schedule 3(a)(vii) or in the SEC Documents filed prior to the date hereof.

(viii) Absence of Litigation. Except as expressly disclosed in the SEC Documents filed prior to the date hereof, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company, any of its subsidiaries, or any of their respective directors or officers in their capacities as such which could reasonably be anticipated to have a Material Adverse Effect. To the Company's knowledge, there are no facts which, if known by a potential claimant or governmental authority, could give rise to a claim or proceeding which, if asserted or conducted with results unfavorable to the Company or any of its subsidiaries, could reasonably be anticipated to have a Material Adverse Effect.

(ix) Intellectual Property. Each of the Company and its subsidiaries owns or is licensed to use all patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, licenses, permits, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) and other similar rights and proprietary knowledge (collectively, "Intangibles") which are material for the conduct of its business as now being conducted and as described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997. To the best knowledge of the Company, neither the Company nor any subsidiary of the Company infringes or is in material conflict with any right of any other person with respect to any Intangibles which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect. Neither the Company nor any of its subsidiaries has received written notice of any pending conflict with or infringement upon such third party Intangibles which alleged pending conflict or alleged infringement, if adversely determined, would have a Material Adverse Effect. Neither the Company nor any of its subsidiaries has entered into any consent Agreement, indemnification agreement, forbearance to sue or settlement agreements with respect to the validity of the Company's or its subsidiaries' ownership or right to use its Intangibles and, to the best knowledge of the Company, there is no reasonable basis for any such claim to be successful. The Intangibles are valid and enforceable and to the Company's knowledge, no registration relating thereto has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceedings, and all applications therefor are pending and in good standing. The Company and its subsidiaries have complied, in all material respects, with their respective contractual obligations relating to the protection of the Intangibles used pursuant to licenses. To the best knowledge of the Company, no person is infringing on or violating the Intangibles owned or used by the Company of its subsidiaries.

(x) Foreign Corrupt Practices. Neither the Company, nor any of its subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any subsidiary has, in the course of his actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political
activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

(xi) Disclosure. All information relating to or concerning the Company and its subsidiaries set forth in this Agreement or provided by the Company to the Purchasers pursuant to Section 2(d) hereof or otherwise provided by the Company to the Purchasers in connection with the transactions contemplated hereby is true and correct in all material respects and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or exists with respect to the Company or its subsidiaries or their respective businesses, properties, prospects, operations or financial conditions, which has not been publicly disclosed but, under applicable law, rule or regulation, would be required to be disclosed by the Company in a registration statement filed on the date hereof by the Company under the Securities Act with respect to a primary issuance of the Company's securities.

(xii) Acknowledgment Regarding the Purchasers' Purchase of the Securities. The Company acknowledges and agrees that none of the Purchasers or the Placement Agent is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement or the transactions contemplated hereby, and the relationship between

the Company and each of the Purchasers and the Placement Agent is "arms length" and that any statement made by any Purchaser or the Placement Agent or any of their respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to such Purchaser's purchase of Securities or such Placement Agent's role as a placement agent and has not been relied upon by the Company, its officers or directors in any way. The Company further acknowledges that the Company's decision to enter into this Agreement has been based solely on an independent evaluation by the Company and its representatives.

(xiii) Form S-3 Eligibility. Except for the circumstances described in Schedule 3(a)(xiii), the Company is currently eligible to register the resale of its Common Stock on a registration statement on Form S-3 under the Securities Act. Except as set forth in Schedule 3(a)(xiii), There exist no facts or circumstances that would prohibit or delay the preparation and filing of a registration statement on Form S-3 with respect to the Registrable Securities (as defined in the Registration Rights Agreement).

(xiv) No General Solicitation. Neither the Company nor any distributor participating on the Company's behalf in the transactions contemplated hereby (if any) nor any person acting for the Company, or any such distributor, has conducted any "general solicitation," as such term is defined in Regulation D, with respect to any of the Securities being offered hereby.

(xv) No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security
or solicited any offers to buy any security under circumstances that would require registration of the Securities being offered hereby under the Securities Act or cause this offering of Securities to be integrated with any prior offering of securities of the Company for purposes of the Securities Act or any applicable stockholder approval provisions.

(xvi) Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by any Purchaser relating to this Agreement or the transactions contemplated hereby except for dealings with The Zanett Securities Corporation, whose commissions and fees will be paid by the Company.

(xvii) Acknowledgment of Dilution. The number of Conversion Shares issuable upon conversion of the Debentures may increase substantially in certain circumstances, including the circumstance wherein the trading price of the Common Stock declines (subject to the Floor Conversion Price set forth in the Debentures). The Company's executive officers have studied and fully understand the nature of the Securities being sold hereunder. The Company acknowledges that its obligation to issue Conversion Shares upon conversion of the Debentures in accordance with the terms of the Debentures is absolute and unconditional, regardless of the dilution that such issuance may have on the ownership interests of other stockholders. Taking the foregoing into account, the Company's Board of Directors has determined in its good faith business judgment that the issuance of the Debentures and the Warrants hereunder and the consummation of the other transactions contemplated hereby are in the best interests of the Company and its stockholders.

(xviii) Tax Status. Except as set forth in the SEC Documents filed prior to the date hereof or on Schedule 3(a)(xviii), the Company and each of its subsidiaries has made or filed all federal, state and local income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. Except as set forth in Schedule 3(a)(xviii), the Company has not executed a waiver with respect to any statute of limitations relating to the assessment or collection of any federal, state or local tax. Except as set forth in Schedule 3(a)(xviii), none of the Company's tax returns has been or is being audited by any taxing authority.

(xix) Title. The Company and its subsidiaries have good and merchantable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(a)(xix) or such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries.

b. CBS represents and warrants to each Purchaser as follows:

(i) Organization and Qualification. CBS and each of its subsidiaries is a corporation duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated, and has the requisite corporate power to own its properties and to carry on its business as it is now being conducted. CBS and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where the failure so to qualify would have a CBS Material Adverse Effect. "CBS Material Adverse Effect" means any material adverse effect on (i) the CBS Warrants or CBS Shares, (ii) the ability of the CBS to perform its obligations hereunder and under the CBS Warrants or (iii) the business, operations, properties, financial condition or previously publicly announced prospects of CBS and its subsidiaries, taken as a whole.

(ii) Authorization; Enforcement. (i) CBS has the requisite corporate power and authority to enter into and perform its obligations under this Agreement and the CBS Warrants, to issue and sell the CBS Warrants in accordance with the terms hereof and to issue the CBS Shares upon exercise of the CBS Warrants in accordance with the terms of such CBS Warrants; (ii) the execution, delivery and performance of this Agreement and the CBS Warrants by the CBS and the consummation by it of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the CBS Warrants and the issuance and reservation for issuance of the CBS Shares) have been duly authorized by CBS's Board of Directors and no further consent or authorization of CBS, its Board or Directors or its stockholders is required; (iii) this Agreement has been duly executed and delivered by CBS; and (iv) assuming due execution and delivery of this Agreement by parties other than CBS and compliance by Zanett with applicable Federal and state securities laws, this Agreement constitutes, and, upon execution and delivery by the Company of the CBS Warrants, such instruments and agreements will constitute, valid and binding obligations of CBS enforceable against CBS in accordance with their terms except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(iii) Issuance of Shares. The CBS Shares are duly authorized and reserved for issuance, and, upon exercise of the CBS Warrants in accordance with the terms thereof, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances and will not be subject to preemptive rights or other similar rights of stockholders of CBS and will not impose personal liability upon the holder thereof other than restrictions on transfer imposed by Federal and state securities laws.

4. COVENANTS.

a. Best Efforts. The parties shall use their commercially reasonable efforts timely to satisfy each of the conditions described in Section 6 and Section 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to cooperate with the filing of a Form D with respect to the Securities as required under Regulation D. The Company shall, on or before the applicable Closing Date, cooperate with The Zanett Securities Corporation ("Zanett") to take such action as the Company shall reasonably determine is necessary to qualify the Securities for sale to the Purchasers pursuant to this Agreement under applicable securities or "blue sky" laws of the states of the United States or obtain exemption therefrom, and shall provide evidence of any such action so taken to the Purchasers on or prior to the First Closing Date. In a timely fashion after the First Closing, the Company agrees to file a Form 8-K concerning this Agreement and the transactions contemplated hereby, which Form 8-K shall attach this Agreement and its Exhibits as exhibits to such Form 8-K.

c. Reporting Status. So long as any Purchaser beneficially owns any of the Securities, the Company shall timely file all reports required to be filed with the SEC pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination.

d. Use of Proceeds. The Company shall use the proceeds from the sale of the Units as set forth on Schedule 4(d).

e. Financial Information. The Company agrees to send the following reports to each Purchaser until such Purchaser transfers, assigns or sells all of its Securities: (i) within ten (10) business days after the filing with the SEC, a copy of its Annual Report on Form 10-K or Form 10- KSB, its Quarterly Reports on Form 10-Q or Form 10-QSB, its proxy statements and any Current Reports on Form 8-K; and (ii) within one (1) business day after release, copies of all press releases issued by the Company or any of its subsidiaries.

f. Reservation of Shares. The Company shall at all times have authorized and reserved for the purpose of issuance a sufficient number of shares of Common Stock to provide for the full conversion of the Debentures and issuance of the Conversion Shares in connection therewith and the full exercise of the Warrants and the issuance of the Warrant Shares in connection therewith, subject to and as otherwise required by the Debentures and the Warrants, and for the issuance of shares of Common Stock pursuant to Section 4(e) below. In that regard, a "sufficient number of shares" with respect to the Debentures shall be deemed to be equal to the number of shares of Common Stock required to be reserved for issuance by the Company pursuant to Article IV of the Debentures, including without limitation, any increase in the number of shares so reserved that may be required in certain circumstances pursuant to such Article. The Company shall not reduce the number of shares reserved for issuance upon conversion of the Debentures and the full exercise of the Warrants [except as a result of any such conversion or exercise) without the consent of the Purchasers. Following the Merger, CBS(Del) shall at all times have authorized and reserved for the purpose of issuance a sufficient number of shares of its common stock to provide for the full exercise of the CBS Warrants and the issuance of the CBS Shares in connection therewith.

g. Listing. The Company shall promptly secure the listing of the Conversion Shares and Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any purchaser owns any Securities, such listing of all of the Conversion Shares and Warrant Shares; provided, however, that the Purchasers acknowledge and agree that the Company may be required to obtain shareholder approval for the issuance of the Conversion Shares and the Warrant Shares subsequent to the First Closing in order to secure such listing with respect to listing a number of shares in excess of the Cap Amount (as defined in the Debenture). The Company will take all action necessary to continue the listing and trading of its Common Stock on the NASDAQ, the Nasdaq National Market ("NNM"), the New York Stock Exchange ("NYSE") or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of such exchanges and the NASD, as applicable. In the event the Common Stock is not eligible to be traded on any of the NASDAQ, NNM, NYSE or AMEX and the Common Stock is not eligible for listing on any such exchange or system, the Company shall use its best efforts to cause the Common Stock to be eligible for trading on the over-the-counter bulletin board at the earliest practicable date and remain eligible for trading while any Securities are outstanding. The Company shall promptly provide to the Purchasers copies of any notices it receives regarding the continued eligibility of the Common Stock for trading in the over-the-counter market or, if applicable, any securities exchange (including the NASDAQ) on which securities of the same class or series issued by the Company are then listed or quoted, if any.

h. Corporate Existence. So long as a Purchaser beneficially owns any Securities, the Company shall maintain its corporate existence, except in the event of a merger, consolidation or sale of all or substantially all of the Company's assets, as long as the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the Debentures, the Warrants and the agreements and instruments entered into in connection herewith (except as expressly provided herein) regardless of whether or not the Company would have had a sufficient number of shares of Common Stock authorized and available for issuance in order to effect the conversion of all Debentures and the exercise in full of all Warrants outstanding as of the date of such transaction and (ii) is a publicly traded corporation whose common stock is listed for trading on the NASDAQ, NYSE or AMEX. Notwithstanding the foregoing, the Company covenants and agrees that it will not engage in any merger, consolidation or sale of all or substantially all of its assets at any time prior to the effectiveness of the registration statement required to be filed pursuant to the Registration Rights Agreement without (A) providing each Purchaser with written notice of such transaction at least sixty (60) days prior to the consummation of the transaction and (B) obtaining the written consent of all of the Purchasers of the then outstanding principal amount of the Debentures on or before the 10th day after the delivery of such notice by the Company.

i. No Integrated Offerings. The Company shall not make any offers or sales of any security (other than pursuant to this Agreement and the Registration Rights Agreement) under circumstances that would require registration of the Securities being offered or sold hereunder under the Securities Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for purposes of any stockholder approval provision applicable to the Company or its securities.

j. Redemptions and Dividends. So long as any Purchaser beneficially owns any Debentures, the Company shall not, without first obtaining the written approval of such Purchaser, redeem, or declare or pay any cash dividend or distribution on, any shares of capital stock of the Company.

k. CBS Reorganization. Within fifteen (15) days following the date of this agreement, CBS shall effect a merger (the "Merger") with Computer Business Sciences, Inc., a new York corporation ("CBS(NY)"), pursuant to which CBS will be the surviving entity with no change to its capital structure.

l. CBS Offering. In the event that (i) the Merger does not occur in a timely fashion, (ii) during the period commencing with the First Closing Date and ending with the first anniversary of the First Closing Date (the "CBS Deadline"), CBS(Del) or CBS, whoever is the issuer of the CBS Warrants, does not successfully complete an initial public offering (an "IPO") for shares of

its common stock (pursuant to an effective registration statement which also covers the resale of the CBS Shares to the extent required by Section 8 of the CBS Warrants), (iii) following an IPO, the average Closing Bid Price (calculated in a manner consistent with the definition thereof in the Debentures) of CBS(Del) or CBS, as the case may be, common stock is less than $5.00 for the twenty (20) trading days commencing either (A) sixty (60) days following closing on the IPO, if the Purchasers are not subject to "lockup" agreements, or (B) with the first trading day following expiration of any "lock-up" period, or (iv) at any time CBS, as the case may be, fails to issue CBS Shares upon a Purchaser's exercise of CBS Warrants, then the Company shall immediately on written demand from a Purchaser accompanied by such Purchaser's CBS Warrants and/or certificates evidencing such Purchaser's CBS Shares endorsed in blank, issue to such Purchaser, in exchange for such CBS Warrants and/or CBS Shares, shares of Common Stock equal to the sum of the surrendered CBS Shares and the CBS Shares issuable upon exercise of the surrendered CBS Warrants.

m. No Manipulations. So as long as a Purchaser beneficially owns any Debentures or Warrants, neither the Purchaser nor any person acting on behalf of such Purchaser shall take any action intended to decrease the trading price of the Company's Common Stock during any period in which the Conversion Price (as defined in the Debenture) is being computed for purposes of any conversion under the Debenture. For as long as the Debentures or Warrants are outstanding, each Purchaser agrees not to effect "short" sales in the Common Stock, loan shares or otherwise participate in any transaction which could be considered as a "short sale" under the rules and regulations promulgated under the Exchange Act (a "Short Sale") and agrees to prohibit each stockholder, executive, employee, representative, affiliate, officer, director or control person of the Purchaser from effecting any Short Sale. Notwithstanding the foregoing, so long as an effective registration statement covering a resale of Common Stock of Purchaser is timely delivered, the provisions of this subsection (n) shall not prohibit a sale, including a Short Sale, by a Purchaser of shares of Common Stock effected within two business days of the date on which a notice of conversion of the Debenture is delivered to the Company entitling such Purchaser to receive a number of shares of Common Stock at least equal to the number of shares so sold.

n. Proxy. The Company shall use its best efforts to cause Doron Cohen and Bruce Bendell to each execute a proxy in form and substance satisfactory to the Purchasers (collectively, the "Proxies") wherein such persons would agree with the Company to vote all shares of Common Stock they own in favor of the transactions contemplated by this Agreement in connection with the shareholder vote required by Section 4(o) hereof and the Company shall use its best efforts to enforce such Proxies in any such shareholder vote.

o. Stockholders' Meeting. The Company shall use its best efforts to hold its 1999 annual meeting of stockholders prior to September 30, 1999 for the purpose, among other things, of voting upon and approving this Agreement, the Debentures, Warrants and Registration Rights Agreement, the issuance of Conversion Shares and Warrant Shares and the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Securities. The Company shall, through its Board of Directors, recommend to its stockholders approval of such matters. The Company shall use its best efforts to solicit from its stockholders proxies in favor of such matters.

p. The Company and the Placement Agent, on behalf of the Purchasers, shall negotiate in good faith milestones to be met by the Company (the "Company Milestones") prior to closing on the second and third tranches.

5. TRANSFER AGENT INSTRUCTIONS.

a. The Company shall instruct its transfer agent to issue certificates, registered in the name of each Purchaser or its nominee, for the Conversion Shares and the Warrant Shares in such amounts as specified from time to time by such Purchaser to the Company upon conversion or exercise, as the case may be. To the extent and during the periods provided in Section 2(f) and Section 2(g) of this Agreement, all such certificates shall bear the restrictive legend specified in Section 2(g) of this Agreement.

b. The Company warrants that no instruction other than such instructions referred to in this Section 5, and stop transfer instructions to give effect to Sections 2(f) and 2(g) hereof in the case of the transfer of the Conversion Shares and the Warrant Shares prior to registration of the resale of the Conversion Shares and the Warrant Shares under the Securities Act or without an exemption therefrom, will be given by the Company to its transfer agent and that the Warrant Shares and Conversion Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent, but only to the extent, provided in this Agreement and the Registration Rights Agreement; provided that the Company may issue stop transfer instructions with respect to the resale of the Warrant Shares and Conversions Shares following registration thereof requiring that the selling party represent in writing that it has complied with applicable law in effecting such resale. Nothing in this Section shall affect in any way each Purchaser's obligations, requirements and agreement set forth in Section 2(g) hereof to resell the Securities pursuant to an effective registration statement or under an exemption from the registration requirements of applicable securities law.

that relate to a specific date, which representations and warranties shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the First Closing Date. Each Purchaser shall have received a certificate, executed by the Chief Executive Officer of the Company, dated as of the First Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by any Purchaser in writing prior to Closing.

(v) No litigation, statute, rule, regulation, executive order, decree, ruling, injunction, action or proceeding shall have been enacted, entered, promulgated or endorsed by any
court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby that questions the validity of, or challenges or prohibits the consummation of, any of the transactions contemplated by this Agreement.

(vi) Such Purchaser shall have received an opinion of the Company's counsel, dated as of the First Closing Date, in form, scope and substance reasonably satisfactory to such Purchaser and in substantially the form of Exhibit E attached hereto.

(vii) The Company shall have delivered evidence reasonably satisfactory to each Purchaser that the Company's transfer agent has agreed to act in accordance with irrevocable instructions in the form attached hereto as Exhibit F.

(viii) There shall have been no changes and no developments in the business, properties, operations, financial condition, results of operations or publicly announced prospects of the Company and its subsidiaries, taken as a whole, which have had or will have a Material Adverse Effect, since the date hereof, and no information, of which the Purchasers are not currently aware, shall come to the attention of the Purchasers that is materially adverse to the Company.

(viii) The Purchasers shall have completed their due diligence regarding the Company to their complete satisfaction in their sole discretion.

b. With respect to the Second Closing:

(i) The Company shall have delivered to such Purchaser such Purchaser's duly executed Debentures and Warrants (in such denominations as such Purchaser shall request in writing prior to the Closing in accordance with Section 1(b) above.

(ii) The Common Stock shall be authorized for quotation on NASDAQ and trading in the Common Stock (or NASDAQ generally) shall not have been suspended by the SEC or NASDAQ.

(iii) The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Second Closing Date as though made at that time (except for representations and warranties that relate to a specific date, which representations and warranties shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Second Closing Date. Each Purchaser shall have received a certificate, executed by the Chief Executive Officer of the Company, dated as of the Second Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by any Purchaser.

(iv) No litigation, statute, rule, regulation, executive order, decree, ruling, injunction, action or proceeding shall have been enacted, entered, promulgated or endorsed by any
court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby that questions the validity of, or challenges or prohibits the consummation of, any of the transactions contemplated by this Agreement.

(v) The Purchasers shall have received an opinion of the Company's counsel, dated as of the Second Closing Date, in form, scope and substance reasonably satisfactory to the Purchasers and in substantially the form of Exhibit E attached hereto.

(vi) The Company shall have delivered evidence reasonably satisfactory to each Purchaser that the Company's transfer agent has agreed to act in accordance with irrevocable instructions in the form attached hereto as Exhibit F.

(vii) There shall have been no changes and no developments in the business, properties, operations, financial condition, results of operations or publicly announced prospects of the Company and its subsidiaries, taken as a whole, which

have had or will have a Material Adverse Effect, since the date hereof, and no information, of which the Purchasers are not currently aware, shall come to the attention of the Purchasers that is materially adverse to the Company.

(viii) The First Closing shall have occurred.

(ix) The Company Milestones for the Second Closing shall have been met.

(x) The Placement Agent, on behalf of the Purchasers, has elected to close by written notice to the Company.

c. With respect to the Third Closing:

(i) The Company shall have delivered to such Purchaser such Purchaser's duly executed Debentures and Warrants (in such denominations as such Purchaser shall request in writing prior to the Closing) in accordance with Section 1(b) above.

(ii) The Common Stock shall be authorized for quotation on NASDAQ and trading in the Common Stock (or NASDAQ generally) shall not have been suspended by the SEC or NASDAQ.

(iii) The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Third Closing Date as though made at that time (except for representations and warranties that relate to a specific date, which representations and warranties shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Third Closing Date. Each Purchaser shall have received a certificate, executed by the Chief Executive Officer of the Company, dated as of the Third Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by any Purchaser in writing prior to Closing.

(iv) No litigation, statute, rule, regulation, executive order, decree, ruling, injunction, action or proceeding shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby that questions the validity of, or challenges or prohibits the consummation of, any of the transactions contemplated by this Agreement.

(v) The Purchasers shall have received an opinion of the Company's counsel, dated as of the Third Closing Date, in form, scope and substance reasonably satisfactory to the Purchasers and in substantially the form of Exhibit E attached hereto.

(vi) The Company shall have delivered evidence reasonably satisfactory to each Purchaser that the Company's transfer agent has agreed to act in accordance with irrevocable instructions in the form attached hereto as Exhibit F.

(vii) There shall have been no changes and no developments in the business, properties, operations, financial condition, results of operations or publicly announced prospects of the Company and its subsidiaries, taken as a whole, which have had or will have a Material Adverse Effect, since the date hereof, and no information, of which the Purchasers are not currently aware, shall come to the attention of the Purchasers that is materially adverse to the Company.

(viii) The Second Closing shall have occurred.

(ix) The Company Milestones for the Third Closing shall have been met.

(x) This Agreement, the Debentures, Warrants and Registration Rights Agreement and the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Securities, shall have been approved and adopted by the stockholders of the Company at the stockholders' meeting referred to in Section 4(o) hereof.

(xi) The Placement Agent, on behalf of the Purchasers, has elected to close by written notice to the Company.

8. GOVERNING LAW; MISCELLANEOUS.

a. Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of choice of law or conflict of laws that would defer to the substantive law of another jurisdiction. The Company irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in the City of New York in the State of New York in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding shall be

determined exclusively in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process mailed by first class mail shall be deemed in every respect effective service of process in any such suit or proceeding. Nothing herein shall affect the right of any Purchaser to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

b. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement. In the event any signature is delivered by facsimile transmission, the party using such means of delivery shall cause the manually executed Execution Page(s) hereof to be physically delivered to the other party within five (5) days of the execution hereof.

c. Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

e. Entire Agreement; Amendments. This Agreement and the other agreements and instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor any Purchaser makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived other than by an instrument in writing signed by the party to be charged with enforcement and no provision of this Agreement may be amended other than by an instrument in writing signed by the Company and each Purchaser.

f. Notices. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Fidelity Holdings, Inc.
80-02 Kew Gardens Road
Suite 5000
Kew Gardens, NY 11415
Telecopy: (718) 793-2455
Attention: Chief Executive Officer

With a copy to:

Littman Krooks Roth & Ball P.C.
655 Third Avenue
New York, NY 10017
Telecopy: (212) 490-2020
Attention: Mitchell C. Littman, Esquire

If to a Purchaser, to the address set forth under such Purchaser's name on the signature page hereto executed by the Purchaser.

Each party shall provide notice to the other parties of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Except as provided herein, neither the Company nor any Purchaser shall assign this Agreement or any rights or obligations hereunder. Notwithstanding the foregoing, any Purchaser may assign its rights hereunder to any of its "affiliates," as that term is defined under the Exchange Act, without the consent of the Company or to any other person or entity with the consent of the Company, so long as each assignee agrees in writing to be bound by the terms hereof and to

make the representations and warranties set forth in Section 2 hereof. This provision shall not limit a Purchaser's right to transfer the Securities pursuant to the terms of this Agreement, the Debentures, the Warrants or the Registration Rights Agreement or to assign such Purchaser's rights hereunder and/or thereunder to any such transferee. In addition, and notwithstanding anything to the contrary contained in this Agreement, the Debentures, the Warrants or the Registration Rights Agreement, the Securities may be pledged and all rights of Purchaser under this Agreement or any other agreement or document related to the transaction contemplated hereby may be assigned, without further consent of the Company, to a bona fide pledgee in connection with a Purchaser's margin or brokerage accounts.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in Sections 3, 4, 5 and 8 shall survive the Closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of any Purchasers. Moreover, none of the representations and warranties made by the Company herein shall act as a waiver of any rights or remedies a Purchaser may have under applicable federal or state securities laws.

j. Indemnity. (i) The Company agrees to indemnify and hold harmless each Purchaser and each other holder of the Securities and all of their stockholders, officers, directors, employees, partners, members, agents and direct or indirect investors and affiliates and any of the foregoing person's agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "Purchaser Indemnitees") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages and expenses in connection therewith (irrespective of whether any such Indemnitee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by any Purchaser Indemnitee as a result of, or arising out of, or relating to (a) any misrepresentation or breach of any representation or warranty made by the Company in this Agreement, the Debentures, the Warrants, the Registration Rights Agreement or any other certificate, instrument or document contemplated hereby or thereby, (b) any breach of any covenant, agreement or obligation of the Company contained in this Agreement, the Debentures, the Warrants, the Registration Rights Agreement or any other certificate, instrument or document contemplated hereby or thereby, (c) any cause of action, suit or claim brought or made against such Indemnitee and arising out of or resulting from the execution, delivery, performance or enforcement of this Agreement, the Debentures, the Warrants, the Registration Rights Agreement or any other certificate, instrument or document contemplated hereby or thereby, (d) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of the issuance of the Securities or (e) the status of such Purchaser or holder of the Securities as an investor in the Company. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

(ii) Each Purchaser, severally and not jointly, agrees to indemnify and hold harmless the Company and all of its stockholders, officers, directors, employees, agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "Company Indemnitees") from and against any and all "Indemnified Liabilities" incurred by any Company Indemnitee as a result of, or arising out of, or relating to (a) any misrepresentation or breach of any representation or warranty made by the Purchaser in this Agreement, or (b) any breach of any covenant, agreement or obligation of the Purchaser contained in this Agreement.

k. Publicity. The Company and each Purchaser shall have the right to approve before issuance any press releases, SEC, NASDAQ or NASD filings, or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Purchasers, to make any press release which does not name the Purchasers or SEC, NASDAQ or NASD filings with respect to such transactions as is required by applicable law and regulations (although the Purchasers shall be consulted by the Company in connection with any such press release and filing prior to its release and shall be provided with a copy thereof).

l. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

m. Termination. In the event that the First Closing Date shall not have occurred on or before January 31, 1999, unless the parties agree otherwise, this Agreement shall terminate at the close of business on such date. Notwithstanding any termination of this Agreement, any party not in breach of this Agreement shall preserve all rights and remedies it may have against another party hereto for a breach of this Agreement prior to or relating to the termination hereof.

n. Joint Participation in Drafting. Each party to this Agreement has participated in the negotiation and drafting of this Agreement, the Debentures, the Warrants and the Registration Rights Agreement. As such, the language used herein and therein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

o. Equitable Relief. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to a Purchaser by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations hereunder (including, but not limited to, its obligations pursuant to Section 5 hereof) will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement (including, but not limited to, its obligations pursuant to Section 5 hereof), that a Purchaser shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate issuance and transfer, without the necessity of showing economic loss and without any bond or other security being required.

p. "Trading day" and "business day" shall mean any day on which the New York Stock Exchange is open for trading.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

By:

Name:
Title:

CBS CORP.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

By:

Name:
Title:

PURCHASER:

ZANETT LOMBARDIER, LTD.

By: /s/ Gianluca Cicogna

Name: Gianluca Cicogna
Title: Director to Advisor

	PURCHASE PRICE		
	First Closing	Second Closing	Third Closing
	$500,000	$781,818.18	$781,818.18

RESIDENCE: Cayman Islands

ADDRESS: c/o Bank Julius Baer Trust Co.
Kirk House, P.O. Box 1100
Grand Cayman, Cayman Islands
British West Indies
Telecopy: (345) 949-0993
Attention: Peter Goulden

with copies of all notices to:

The Zanett Securities Corporation
Tower 49, 31st Floor
12 East 49th Street
New York, New York 10017
Telecopy: (212) 343-2121
Attention: Claudio Guazzoni

SUBSCRIPTION AMOUNT:

Number of Units 500

IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen

Title: President

PURCHASER:

GOLDMAN SACHS PERFORMANCE PARTNERS, L.P.	**PURCHASE PRICE**		
By: Commodities Corporation LLC, its general partner	Closing	First Closing	Second Closing	Third
By: /s/ Karen M. Judge	$1,120,000	$1,751,272.73	$1,751,272.73	

Name: Karen M. Judge
Title: Vice President

RESIDENCE: Delaware

ADDRESS: c/o Commodities Corporation LLC
701 Mount Lucas Road
CN 850
Princeton, NJ 08540

SUBSCRIPTION AMOUNT:

Number of Units 1,120

IN WITNESS WHEREOF, the undersigned Purchasor and the Company have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

PURCHASER:

GOLDMAN SACHS PERFORMANCE PARTNERS (OFFSHORE), L.P.	**PURCHASE PRICE**		
By: Commodities Corporation LLC, its general partner	Closing	First Closing	Second Closing	Third
By: /s/ Karen M. Judge	$880,000	$1,376,000	$1,376,000	

Name: Karen M. Judge
Title: Vice President

RESIDENCE: Cayman Islands

ADDRESS: P.O. Box 309
South Church Street
George Town, Grand Cayman
Cayman Islands

with copies of all notices to:

c/o Commodities Corporation LLC
701 Mount Lucas Road
CN 850
Princeton, NJ 08540

SUBSCRIPTION AMOUNT:

Number of Units 880

IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

By:

Name:
Title:

CBS CORP.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

By:

Name:
Title:

PURCHASER:

BRUNO GUAZZONI

	PURCHASE PRICE		
	First Closing	Second Closing	Third Closing
/s/ Bruno Guazzoni	$230,000	$359,636.36	$359.636.36

Bruno Guazzoni

RESIDENCE: New York

ADDRESS:

c/o The Zanett Securities Corporation
Tower 49, 31st Floor
12 East 49th Street
New York, New York 10017
Telecopy: (212) 343-2121
Attention: Bruno Guazzoni

SUBSCRIPTION AMOUNT:

Number of Units 230

IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

CBS CORP.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

Name: Doron Cohen
Title: President

By:

By:

Name:
Title:

Name:
Title:

PURCHASER:

DAVID McCARTHY	PURCHASE PRICE		
	First Closing	Second Closing	Third Closing
/s/ David McCarthy	$20,000	$31,272.73	$31,272.73

David McCarthy

RESIDENCE: New York

ADDRESS:

c/o The Zanett Securities Corporation
Tower 49, 31st Floor
12 East 49th Street
New York, New York 10017
Telecopy: (212) 343-2121
Attention: Bruno Guazzoni

SUBSCRIPTION AMOUNT:

Number of Units 20

Exhibit 10.62

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of January 25, 1999, by and among FIDELITY HOLDINGS, INC., a corporation organized under the laws of the State of Nevada, with headquarters located at 80-02 Kew Gardens Road, Suite 5000, Kew Gardens, NY 11415 (the "Company"), and the undersigned (together with affiliates, the "Initial Investors").

WHEREAS:

A. In connection with that certain Securities Purchase Agreement dated as of the date hereof by and among the Company and the Initial Investors (the "Purchase Agreement"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Initial Investors (i) Convertible Term Debentures (the "Debentures") that are convertible into shares (the "Conversion Shares") of the Company's Class A Common Stock, par value $0.001 per share (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in the form of Debenture, (ii) shares of Common Stock (the "Purchased Shares"), and (iii) Warrants (the "Investor Warrants") to acquire shares (the "Warrant Shares") of Common Stock;

B. To induce the Initial Investors to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "Securities Act"), and applicable state securities laws; and

C. The Company has agreed to issue to The Zanett Securities Corporation or its assigns (the "Placement Agent") shares of Common Stock and Warrants (the "Placement Warrants" and, together with the Investor Warrants, the "Warrants") to purchase shares of Common Stock, pursuant to that certain Placement Agency Agreement, dated as of even date herewith, by and between the Company and the Placement Agent and has agreed to provide the Placement Agent the rights set forth herein. For purposes of this Agreement, the Placement Agent shall be deemed an "Initial Investor," the shares of common stock issued to it at Closing shall be deemed "Purchased Shares," and the shares of Common Stock issuable upon the exercise of, or otherwise pursuant to, the Placement Agent Warrants shall be deemed "Warrant Shares."

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Initial Investors hereby agree as follows:

1. DEFINITIONS.

a. As used in this Agreement, the following terms shall have the following meanings:

(i) "Investors" means the Initial Investors and any transferees or assignees who agree to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(ii) "register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effectiveness of such Registration Statement by the United States Securities and Exchange Commission (the "SEC").

(iii) "Registrable Securities" means the Purchased Shares, the Conversion Shares and the Warrant Shares (including any Conversion Shares issuable in redemption of any Debentures and any Warrant Shares issuable with respect to Exercise Default Payments under the Warrants) issued or issuable with respect to the Debentures and the Warrants and any shares of capital stock issued or issuable, from time to time (with any adjustments), as a distribution on or in exchange for or otherwise with respect to any of the foregoing, but excluding any shares of Common Stock satisfying the foregoing sold by an Investor in a transaction in which such Investor's registration rights under this Agreement are not assigned.

(iv) "Registration Statement" means a registration statement of the Company under the Securities Act.

b. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

2. REGISTRATION.

a. Mandatory Registration. Subject to this Subsection 2(a), the Company shall prepare and, on or before March 11, 1999 (the "First Filing Date", and thereafter within 45 days after each Closing Date (as defined in the Securities Purchase Agreement) (each a "Filing Date"), file with the SEC a Registration Statement on Form S-3 (or, if Form S-3 is not then available, on such form of Registration Statement as is then available to effect a registration of all of the Registrable Securities issued at such Closing or upon the conversion of Debentures (assuming conversion at the Floor Conversion Price) or exercise of Warrants issued at such Closing, subject to the consent of the Initial Investors (as determined pursuant to Section 11(j) hereof)) covering the resale of at least 1,410,417 Registrable Securities following the First Closing and 1,970,834 Registrable Securities following each of the Second and Third Closings, which Registration Statements, to the extent allowable under the Securities Act and the Rules promulgated thereunder (including Rule 416), shall each state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon conversion of the Debentures and exercise of the Warrants to prevent dilution resulting from stock splits, stock dividends or similar transactions. The Registrable Securities initially set forth in each Registration Statement shall be allocated to the Investors as set forth in Section 11(k) hereof. Each Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided to (and subject to the approval of) the Initial Investors and their counsel prior to its filing or other submission. Notwithstanding anything to the contrary contained in this Agreement, the Company shall have the right to defer the filing of a Registration Statement (i) for such reasonable period of time until the Company receives or prepares financial statements for the fiscal period most recently ended prior to such written request, if necessary to avoid the use of stale financial statements or (ii) for a reasonable period of time not to exceed 90 days if the Company would be

required to divulge in such Registration Statement the existence of any fact relating to a material business transaction or negotiation not otherwise required to be disclosed and the Board of Directors of the Company shall determine in good faith that the disclosure of such fact at such time would not be in the best interest of the Company (the "Deferral Period").

b. Underwritten Offering. If any offering pursuant to a Registration Statement pursuant to Section 2(a) hereof involves an underwritten offering, the Investors who hold a majority in interest of the Registrable Securities subject to such underwritten offering, with the consent of the Initial Investors, shall have the right to select one legal counsel to represent the Investors and an investment banker or bankers and manager or managers to administer the offering, which investment banker or bankers or manager or managers shall be reasonably satisfactory to the Company. In the event that any Investors elect not to participate in such underwritten offering, the Registration Statement covering all of the Registrable Securities shall contain appropriate plans of distribution reasonably satisfactory to the Investors participating in such underwritten offering and the Investors electing not to participate in such underwritten offering (including, without limitation, the ability of nonparticipating Investors to sell from time to time and at any time during the effectiveness of such Registration Statement).

c. Registration Deadline; Payments by the Company. The Company shall cause each Registration Statement required to be filed pursuant to Section 2(a) hereof to become effective as soon as practicable, but in no event later than 120 days after the applicable Filing Date deadline, or at the end of the applicable Deferral Period, as the case may be (the "Registration Deadline"); provided, that in the event that the effectiveness of a Registration Statement is delayed beyond the Registration Deadline solely as the result of the SEC's failure to provide or respond to comments on a timely basis, or by reason of any other unilateral action of or position taken by the SEC with respect to the filing, and notwithstanding the Company's best efforts, the Registration Deadline shall be deemed extended by a period equal to such delay. If (i) any Registration Statement(s) covering the Registrable Securities required to be filed by the Company pursuant to Section 2(a) hereof is not filed with the SEC by the applicable Filing Date or is not declared effective by the SEC on or before the applicable Registration Deadline, or if, after a Registration Statement has been declared effective by the SEC, sales of all of the applicable Registrable Securities (including any Registrable Securities required to be registered pursuant to Section 3(b) hereof) cannot be made pursuant to such Registration Statement (by reason of a stop order or the Company's failure to update the Registration Statement or any other reason outside the control of the Investors) or (ii) the Common Stock is not listed or included for quotation on the Nasdaq SmallCap Market (the "SmallCap"), the Nasdaq National Market (the "NNM"), the New York Stock Exchange (the "NYSE") or the American Stock Exchange (the "AMEX") at any time after the applicable Registration Deadline, then the Company will make payments to the Investors in such amounts and at such times as shall be determined pursuant to this Section 2(c) as partial relief for the damages to the Investors by reason of any such delay in or reduction of their ability to sell the Registrable Securities (which remedy shall not be exclusive of any other remedies available at law or in equity). The Company shall pay to each Investor an amount equal to the product of (i) the aggregate Purchase Price of the Debentures, Purchased Shares, CBS Shares and Warrants held by such Investor and purchased at the applicable Closing (including, without limitation, Debentures that have been converted into Conversion Shares and Warrants that have been exercised for Warrant Shares then held by such Investor) (the "Aggregate Purchase Price"), multiplied by (ii) one hundredth (.01), for each thirty (30) day period (or portion thereof) (A) after the Filing Date and prior to the date on which the Registration Statement required to be filed pursuant to Section 2(a) hereof is filed with the SEC, (B) after the Registration Deadline and prior to the date on which the Registration Statement required to be filed pursuant to Section 2(a) hereof is declared effective by the SEC, and (C) during which sales of any Registrable Securities cannot be made pursuant to the Registration Statement after the Registration Statement has been declared effective or the Common Stock is not listed or included for quotation on the SmallCap, NNM, NYSE or AMEX; provided, however, that there shall be excluded from each such period any delays which are solely attributable to changes (other than corrections of Company mistakes with respect to information previously provided by the Investors) required by the Investors in the Registration Statement with respect to information relating to the Investors, including, without limitation, changes to the plan of distribution. (For example, if the Registration Statement is not effective by the Registration Deadline, the Company would pay $10,000 for each thirty (30) day period thereafter with respect to each $1,000,000 of Aggregate Purchase Price until the Registration Statement becomes effective). Such amounts shall be paid in cash or, at each Investor's option, may be convertible into Common Stock at the "Conversion Price" (as defined in the Debenture) then in effect. Any shares of Common Stock issued upon conversion of such amounts shall be Registrable Securities. If the Investor desires to convert the amounts due hereunder into Registrable Securities it shall so notify the Company in writing within two (2) business days after the date on which such amounts are first payable in cash and such amounts shall be so convertible (pursuant to the mechanics set forth under Article IV of the Debenture), beginning on the last day upon which the cash amount would otherwise be due in accordance with the following sentence. Payments of cash pursuant hereto shall be made within five (5) days after the end of each period that gives rise to such obligation, provided that, if any such period extends for more than thirty (30) days, interim payments shall be made for each such thirty (30) day period.

d. Restrictions on Sale. Notwithstanding the effectiveness of a Registration Statement filed pursuant to Section 2(a) hereof, the Investors hereby agree not to transfer, sell, assign, hypothecate or otherwise dispose of any Registrable Securities without the prior written consent of the Company prior to July 26, 1999.

e. Piggy-Back Registrations. If at any time prior to the expiration of the Registration Period (as hereinafter defined) the Company shall file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans), the Company shall send to each Investor who is entitled to registration rights under this Section 2(e) written notice of such determination and, if within fifteen (15) days after the date of such notice, such Investor shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Investor requests to be registered, except that if, in connection with any underwritten public offering, the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities with respect to which such Investor has requested inclusion hereunder as the underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion with the Registrable Securities; and provided, further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with holders of other securities having the right to include such securities in the Registration Statement other than holders of securities entitled to inclusion of their securities in such Registration Statement by reason of demand registration rights. No right to registration of Registrable Securities under this Section 2(e) shall be construed to limit any registration required under Section 2(a) hereof. If an offering in connection with which an Investor is entitled to registration under this Section 2(e) is an underwritten offering, then each Investor whose Registrable Securities are included in such Registration Statement shall, unless otherwise agreed by the Company, offer and sell such Registrable Securities in an underwritten offering using the same underwriter or underwriters and, subject to the provisions of this Agreement (to the extent not inconsistent with the terms of such underwritten offering), on the same terms and conditions as other shares of Common Stock included in such underwritten offering.

f. Eligibility for Form S-3. The Company represents and warrants that, to its knowledge, except as set forth in Schedule 3(a)(xiii) to the Securities Purchase Agreement, it meets the requirements for the use of Form S-3 for registration of the sale by the Initial Investors and any other Investor of the Registrable Securities and the Company shall file all reports required to be filed by the Company with the SEC in a timely manner so as to maintain such eligibility for the use of Form S-3.

3. OBLIGATIONS OF THE COMPANY.

In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

a. The Company shall prepare and file with the SEC each Registration Statement required by Section 2(a) as soon as practicable after the date hereof (but in no event later than the applicable Filing Date), and cause such Registration Statement relating to Registrable Securities to become effective as soon as practicable after such filing (but in no event later than the applicable Registration Deadline), and keep the Registration Statements effective pursuant to Rule 415 at all times until such date as is the earlier of (i) the date on which at least 90% of the Registrable Securities have been sold, (ii) the date on which all of the Registrable Securities (in the reasonable opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction pursuant to Rule 144(k) under the Securities Act or any successor provision, or (iii) the date on which all restrictive legends (including without limitation the legend required by Section 2(g) of the Securities Purchase Agreement and Article IX.K of the Debentures) have been removed from all Registrable Securities and all "stop transfer" instructions issued to the Company's transfer agent have been canceled (the "Registration Period"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein and all documents incorporated by reference therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein not misleading.

b. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectuses used in connection with the Registration Statements as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statements. In the event the number of shares available under the Registration Statements filed pursuant to this Agreement is, for any three (3) consecutive trading days (the last of such three (3) trading days being the "Registration Trigger Date"), insufficient to cover one hundred percent (100%) of the Registrable Securities issued or issuable upon conversion (without giving effect to any

limitations on conversion contained in Section III.C of the Debentures and assuming conversion at the Floor Conversion Price then in effect) of the Debentures and exercise of the Warrants (without giving effect to any limitations on exercise contained in Section 7 of the Warrants), the Company shall amend the Registration Statements, or file a new Registration Statement (on the short form available therefor, if applicable), or both, so as to cover one hundred percent (100%) of the Registrable Securities issued or issuable (without giving effect to any limitations on conversion or exercise contained in the Debentures and assuming conversion at the Floor Conversion Price then in effect) as of the Registration Trigger Date, in each case, as soon as practicable, but in any event within fifteen (15) days after the Registration Trigger Date (based on the market price then in effect of the Common Stock and other relevant factors on which the Company reasonably elects to rely). The Company shall cause such amendment(s) and/or new Registration Statement to become effective as soon as practicable following the filing thereof. The Company shall cause such amendment and/or new Registration Statement to become effective as soon as practicable following the filing thereof. In the event the Company fails to obtain the effectiveness of any such Registration Statement within sixty (60) days after a Registration Trigger Date, each Investor shall thereafter be entitled to the remedies provided for in Section 2(c) above.

c. The Company shall furnish to each Investor whose Registrable Securities are included in the Registration Statements and its legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one copy of each Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and, in the case of the Registration Statements referred to in Section 2(a), each letter written by or on behalf of the Company to the SEC or the staff of the SEC (including, without limitation, any request to accelerate the effectiveness of any Registration Statement or amendment thereto), and each item of correspondence from the SEC or the staff of the SEC, in each case relating to such Registration Statement (other than any portion, if any, thereof which contains information for which the Company has sought confidential treatment), (ii) on the date of effectiveness of a Registration Statement or any amendment thereto, a notice stating that the Registration Statement or amendment has been declared effective, and (iii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor.

d. The Company shall use its best efforts to (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as each Investor who holds Registrable Securities being offered reasonably requests, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

e. In the event the Investors who hold a majority in interest of the Registrable Securities being offered in an offering select underwriters for the offering, the Company shall enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the underwriters of such offering.

f. As promptly as practicable after becoming aware of such event, the Company shall notify each Investor of the happening of any event, of which the Company has knowledge, as
a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading (including without limitation any transfer of Registrable Securities by a person named as a selling shareholder in a Registration Statement), and use its best efforts promptly to prepare a supplement or amendment to such Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request.

g. The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest practicable moment (including in each case by amending or supplementing such Registration Statement) and to notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters)

of the issuance of such order and the resolution thereof (and if such Registration Statement is supplemented or amended, deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request).

h. The Company shall permit a single firm of counsel designated by the Initial Investors to review each Registration Statement and all amendments and supplements thereto a reasonable period of time prior to their filing with the SEC, and not file any document in a form to which such counsel reasonably objects.

i. The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of a Registration Statement.

j. At the request of any Investor, the Company shall make available, on the date of effectiveness of a Registration Statement (i) an opinion, dated as of such date, from counsel representing the Company addressed to the Investors and in form, scope and substance as is customarily given in an underwritten public offering and (ii) in the case of an underwriting, a letter, dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Investors.

k. The Company shall make available for inspection by (i) any Investor, (ii) any underwriter participating in any disposition pursuant to a Registration Statement, (iii) one firm of attorneys and one firm of accountants or other agents retained by the Investors, and (iv) one firm of attorneys retained by all such underwriters (collectively, the "Inspectors") all pertinent financial and other records, and pertinent corporate documents and properties of the Company (collectively, the "Records"), as shall be reasonably deemed necessary by each Inspector to enable each Inspector to exercise its due diligence responsibility, and cause the Company's officers, directors and employees to supply all information which any Inspector may reasonably request for purposes of such due diligence; provided, however, that each Inspector shall hold in confidence and shall not make any disclosure (except to an Investor) or use of any Record or other information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement, (b) the release of such Records is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction or (c) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into confidentiality agreements (in form and substance satisfactory to the Company) with the Company with respect thereto, substantially in the form of this Section 3(k). Each Investor agrees that it shall, upon learning that disclosure of such Records is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein shall be deemed to limit the Investors' ability to sell Registrable Securities in a manner which is otherwise consistent with applicable laws and regulations.

l. The Company shall hold in confidence and not make any disclosure of information concerning an Investor provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement, or (v) such Investor consents to the form and content of any such disclosure. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Investor prior to making such disclosure, and allow the Investor, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

m. The Company shall use its best efforts to promptly secure the designation and quotation of all of the Registrable Securities covered by the Registration Statements on the NNM or the SmallCap and, without limiting the generality of the foregoing, to arrange for or maintain at least two market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities.

n. The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the first Registration Statement.

o. The Company shall cooperate with the Investors who hold Registrable Securities being offered and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the managing underwriter or underwriters, if any, or the Investors may reasonably request and registered in such names as the managing underwriter or underwriters, if any, or the Investors may request, and, within three (3) business days after a Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) an opinion of such counsel in the form attached hereto as Exhibit 1.

p. At the reasonable request of any Investor, the Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement and the prospectus used in connection with a Registration Statement as may be necessary in order to change the plan of distribution set forth in such Registration Statement.

q. The Company shall comply with all applicable laws related to a Registration Statement and offering and sale of securities and all applicable rules and regulations of governmental authorities in connection therewith (including, without limitation, the Securities Act and the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC).

r. The Company shall take all such other actions as any Investor or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of the Registrable Securities.

s. From and after the date of this Agreement, the Company shall not, and shall not agree to, allow the holders of any securities of the Company to include any of their securities in any Registration Statement under Section 2(a) hereof or any amendment or supplement thereto under Section 3(b) hereof without the consent of the holders of a majority in interest of the Registrable Securities.

4. OBLIGATIONS OF THE INVESTORS.

In connection with the registration of the Registrable Securities, the Investors shall have the following obligations:

a. It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least five (5) business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the information the Company requires from each such Investor.

b. Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from the Registration Statement.

c. In the event Investors holding a majority in interest of the Registrable Securities being offered determine to engage the services of an underwriter, each Investor agrees to enter into and perform such Investor's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Investor has notified the Company in writing of such Investor's election not to participate in such underwritten distribution.

d. Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Sections 3(f) or 3(g), such Investor will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Sections 3(f) or 3(g) and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Investor's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

e. No Investor may participate in any underwritten distribution hereunder unless such Investor (i) agrees to sell such Investor's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 5 below.

f. Each Investor agrees that all resales of Registrable Securities that are covered by an effective Registration Statement shall be made only in compliance with applicable provisions of the Securities Act and applicable state law.

5. EXPENSES OF REGISTRATION.

All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company, the fees and disbursements contemplated by Section 3(k) hereof, and the reasonable fees (up to $5,000 in the aggregate) and disbursements of one counsel selected by the Investors pursuant to Section 2(b) hereof shall be borne by the Company. In addition, the Company shall pay all of the Investors' costs and expenses (including legal fees) incurred in connection with the enforcement of the rights of the Investors hereunder.

6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

a. To the extent permitted by law, the Company will indemnify, hold harmless and defend (i) each Investor who holds such Registrable Securities, and (ii) the directors, officers, partners, members, employees, agents and each person who controls any Investor within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any, (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or alleged omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities (the matters in the foregoing clauses (i) through (iii) being, collectively, "Violations"). Subject to the restrictions set forth in Section 6(c) with respect to the number of legal counsel, the Company shall reimburse the Investors and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable, actual and appropriate out of pocket
expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for use in a Registration Statement or any such amendment thereof or supplement thereto; (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld; and (iii) with respect to any preliminary prospectus, shall not inure to the benefit of any Indemnified Person if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, if such corrected prospectus was timely made available by the Company pursuant to Section 3(c) hereof, and the Indemnified Person was promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a Violation and such Indemnified Person, notwithstanding such advice, used it. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9 hereof.

b. In connection with any Registration Statement in which an Investor is participating, each such Investor agrees severally and not jointly to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in

Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder within the meaning of the Securities Act or the Exchange Act (collectively and together with an Indemnified Person, an "Indemnified Party"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor expressly for use in connection with such Registration Statement; and subject to Section 6(c) such Investor will reimburse any legal or other expenses (promptly as such expenses are incurred and are due and payable) reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Agreement (including this Section 6(b) and Section 7) for only that amount as does not exceed the net proceeds actually received by such Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9 hereof. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(b) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, and the Indemnified Party failed to utilize such corrected prospectus.

c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that such indemnifying party shall not be entitled to assume such defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party which are different from or in addition to those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Persons or the Indemnified Parties, as applicable, and such legal counsel shall be selected by Investors holding a majority-in-interest of the Registrable Securities included in the Registration Statement to which the Claim relates (with the approval of the Initial Investors if they hold Registrable Securities included in such Registration Statement), if the Investors are entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that (i) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 6, (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities pursuant to such Registration Statement.

8. REPORTS UNDER THE EXCHANGE ACT.

With a view to making available to the Investors the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Investors to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to:

a. File with the SEC in a timely manner and make and keep available all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements (it being understood that nothing herein shall limit the Company's obligations under Section 4(c) of the Securities Purchase Agreement) and the filing and availability of such reports and other documents is required for the applicable provisions of Rule 144; and
b. b. Furnish to each Investor so long as such Investor owns Debentures, Warrants or Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Investors to sell such securities under Rule 144 without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights of the Investors hereunder, including the right to have the Company register Registrable Securities pursuant to this Agreement, shall be automatically assignable by each Investor to any transferee of all or any portion of the Debentures, the Warrants or the Registrable Securities if: (i) Debenture are transferred in increments of $10,000 and the Warrants and Registrable Securities are transferred in increments of that number of shares of Common Stock issuable in relation to such increments of $10,000 of face amount of the Debentures, (ii) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (iii) the Company is furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned, (iv) following such transfer or assignment, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws (unless and to the extent registered hereunder), (v) the transferee or assignee agrees in writing for the benefit of the Company to be bound by all of the provisions contained herein, and (vi) such transfer shall have been made in accordance with the applicable requirements of the Securities Purchase Agreement.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and Investors who hold a majority in interest of the Registrable Securities; provided, however, that no amendment hereto which restricts the ability of an Investor to elect not to participate in an underwritten offering shall be effective against any Investor which does not consent in writing to such amendment provided, further, however, that no consideration shall be paid to an Investor by the Company in connection with an amendment hereto unless each Investor similarly affected by such amendment receives a pro-rata amount of consideration from the Company. Unless an Investor otherwise agrees, each amendment hereto must similarly affect each Investor. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Investor and the Company.

11. MISCELLANEOUS.

a. A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

b. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five (5) days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

80-02 Kew Gardens Road
Suite 5000

Kew Gardens, NY 11415
Telecopy: (718) 793-4830
Attention: Chief Executive Officer

and if to any Investor, at such address as such Investor shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 11(b).

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of choice of law or conflict of laws that would defer to the substantive law of another jurisdiction. The Company irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in the City of New York in the State of New York in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding shall be determined exclusively in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company, mailed by first class mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the Investors' right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

e. This Agreement, the Securities Purchase Agreement (including all schedules and exhibits thereto) and the Warrants constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. This Agreement, the Securities Purchase Agreement and the Warrants supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

g. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

h. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. All consents, approvals and other determinations to be made by the Investors or the Initial Investors pursuant to this Agreement shall be made by the Investors or the Initial Investors holding a majority in interest of the Registrable Securities (determined as if all Debentures and Warrants then outstanding had been converted into or exercised for Registrable Securities) held by all Investors or Initial Investors, as the case may be.

k. The initial number of Registrable Securities included on any Registration Statement and each increase (if any) to the number of Registrable Securities included thereon shall be allocated pro rata among the Investors based on the number of Registrable Securities held by each Investor at the time of such establishment or increase, as the case may be. In the event an Investor shall sell or otherwise transfer any of such holder's Registrable Securities, each transferee shall be allocated a pro rata portion of the number of Registrable Securities included on a Registration Statement for such transferor. Any shares of Common Stock included on a Registration Statement and which remain allocated to any person or entity which does not hold any Registrable Securities shall be allocated to the remaining Investors, pro rata based on the number of shares of Registrable Securities then held by such Investors. For the avoidance of doubt, the number of Registrable Securities held by any Investors shall be determined as if all Debentures and Warrants then outstanding were converted into or exercised for Registrable Securities on the date of determination.

l. Each party to this Agreement has participated in the negotiation and drafting of this Agreement. At such, the language used herein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

m. For purposes of this Agreement, the term "business day" means any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

FIDELITY HOLDINGS, INC.

By: /s/ Doron Cohen

Name: Doron Cohen
Title: President

By:

Name:
Title:

INITIAL INVESTORS:

ZANETT LOMBARDIER, LTD.

By: /s/ Gianluca Cicogna

Name:

Title:

GOLDMAN SACHS PERFORMANCE PARTNERS, L.P.
By: Commodities Corporation LLC, general partner

By: /s/ Karen M. Judge

Name: Karen M. Judge

Title: Vice President

GOLDMAN SACHS PERFORMANCE PARTNERS (OFFSHORE), L.P.
By: Commodities Corporation LLC, general partner

By: /s/ Karen M. Judge

Name: Karen M. Judge
Title: Vice President

/s/ David McCarthy

David McCarthy

/s/ Bruno Guazzoni

Bruno Guazzoni

EXHIBIT 1
to
Registration
Rights
Agreement

[Date]

[Name and address
of transfer agent]

RE: Fidelity Holdings, Inc.

Ladies and Gentlemen:

We are counsel to Fidelity Holdings, Inc., a corporation organized under the laws of the State of Nevada (the "Company"), and we understand that [Name of Investor] (the "Holder") has purchased from the Company Convertible Subordinated Term Dentures (the "Debentures") that are convertible into shares of the Company's Common Stock, par value $.001 per share (the "Common Stock"), and (ii) warrants (the "Warrants") to acquire shares of Common Stock. Pursuant to a Registration Rights Agreement, dated as of January 25, 1999, by and among the Company, the Holder and the other signatories thereto (the "Registration Rights Agreement"), the Company agreed with the Holder, among other things, to register the Registrable Securities (as that term is defined in the Registration Rights Agreement) under the Securities Act of 1933, as amended (the "Securities Act"), upon the terms provided in the Registration Rights Agreement. In connection with the Company's obligations under the Registration Rights Agreement, on _____, ____, the Company filed a Registration Statement on Form S-___ (File No. 333- _____) (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") relating to the Registrable Securities, which names the Holder as a selling stockholder thereunder. The Registration Statement was declared effective by the SEC on _____, 1999.

[Other customary introductory and scope of examination language to be inserted]

Based on the foregoing, we are of the opinion that the Registrable Securities have been registered for resale under the Securities Act.

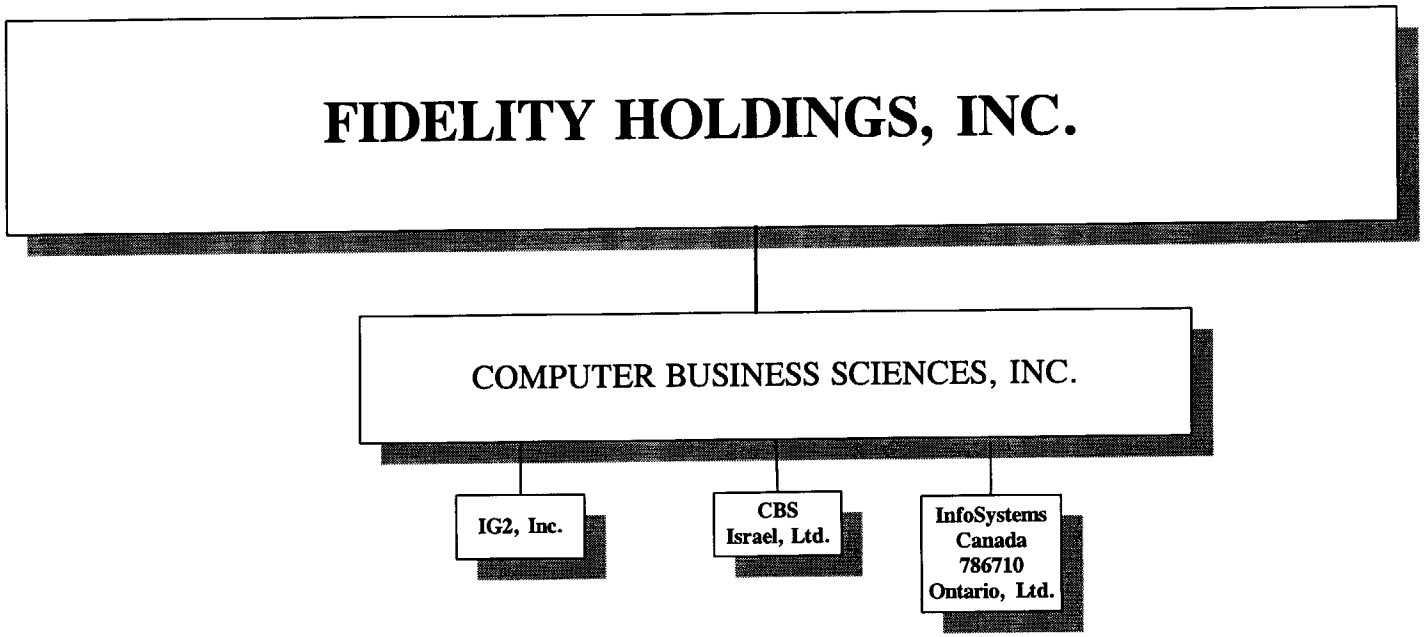
[Other customary language to be included including compliance with delivery of resale prospectus.]

Very truly yours,

cc: [Name of Investor]

EXHIBIT JJG-3

ORG CHART
PROJECTIONS
START-UP CAPITAL


FIDELITY HOLDINGS, INC.
COMPUTER BUSINESS SCIENCES, INC.
IG2, Inc.
CBS Israel, Ltd.
InfoSystems Canada 786710 Ontario, Ltd.

ASSUMPTIONS FOR PROJECTIONS

REVENUE

Beginning in December 1999 (three months after expected financing) Computer Business Sciences, Inc. ("CBS" or "the Company") will begin deployment of its Voice over Internet Protocol telephone services and its related bundled ADSL services. Filing for Competitive Local Exchange Carrier ("CLEC") status requires approximately 120 days and requires up front payment of fees. Revenue, however, will actually begin in July 1999 from sales of Voice Over Internet service. This activity does not require CLEC status. In its first fiscal year of operations, CBS plans to be in 18 cities, with an average of 3,500 customers in each city by fiscal year-end. By the end of its second fiscal year, the number of cities in which the Company is providing services expands to 62, with an average of 3,500 customers in each. In year three, the customer base is projected to increase by 25% to an average of 4,375 per city by fiscal year-end.

Customers are projected to pay $130 per month for services, which include high speed Internet access, at an average rate of 1.5 megabyte/second, 500 minutes of long distance calling and 1,000 minutes of local area ("LADA") calling.

International calling is the current business of CBS and only modest growth is projected, as that segment of the enterprise is de-emphasized.

COST OF SALES

The cost of sales for the international calling operation reflects the Company's historic gross profit percentage of 40%. The non-recurring build-out charges represent the costs of obtaining licenses to operate as CLEC and the one time build out costs of co-locations in each of the Central Offices ("COs") in each of the jurisdictions in which the company intends to operate. Line charges include the monthly costs of ATM ports, PBX lines and local lines for each of the cities as they are projected to come on line. Monthly charges for network include the cost to the company of the 500 minutes given to customers as part of the service, as well as the monthly charges for telephone lines and for bandwidth expansion. The costs of co-location are monthly rental fees for rack space in the COs. ISP charges are $3 per month projected to be paid to Internet Service Providers in order to leverage their customer base.

OTHER EXPENSES

Selling, general and administrative expenses include, in addition to salaries and other sales, marketing and administrative expenses, the costs of credit card sales and customer service which, together, have been projected at 10% of total revenue. Interest expense reflects only the financing costs associated with the acquisition of ADSL equipment located in the COs. Such costs have been projected at $950 per CO with interest at 14%. Other expense in the first year include one-time charges such as the costs of setting up facilities, hiring staff, consulting and initial supplies associated with setting up a new operation.

INCOME TAXES

Income taxes have been calculated at an estimated effective rate of 35%.

EARNINGS PER SHARE

Earnings per share reflects the assumed conversion of the Debentures into 2,000,000 shares of common stock.

Projected Statement of Operations

	Fiscal Years Ending December 31		
	2000	2001	2002
REVENUES			
Sales	$ 56,140,000	$ 348,520,000	$ 435,650,000
Cost of Sales	29,907,365	128,748,700	157,323,025
Gross Profit	26,232,635	219,771,300	278,326,975
Operating expenses	25,200,000	54,438,000	65,109,600
Interest expense	4,189,500	14,430,500	32,468,625
Operating Income	(3,156,865)	150,902,800	180,748,750
Other income (expense)	(1,042,000)	-	-

Estimated Start-Up Capital

	Monthly Expenses	Cash Needed to Start	% of Total
MONTHLY COSTS			
Salaries and Wages	$281,506	$1,689,036	7.9%
All other Monthly Charges	$18,580,694	1,548,391	7.2%
Rent-Co Location	$87,525	525,150	2.4%
ISP Charges	$1,134,000	0	0.0%
Network Charges	$3,528,000	14,112,000	65.7%
Cost of International Calling	$4,200,000	0	0.0%
Interest	$4,189,500	0	0.0%
Subtotal		$17,874,577	83%
ONE-TIME COSTS			
NRC Network Buildout		$2,095,640	9.8%
Starting inventory		1,000,000	4.7%
Cash		500,000	2.3%
Other			0.0%
Subtotal		$3,595,640	17%
TOTAL ESTIMATED START-UP CAPITAL		$21,470,217	

Projected Statement of Operations - Details

	Fiscal Years Ending December 31		
	2000	2001	2002
REVENUES			
ADSL Voice & Bundled Services	$ 49,140,000	$ 338,520,000	$ 423,150,000
Revenue-Intl calling current business	7,000,000	10,000,000	12,500,000
Total Revenue	56,140,000	348,520,000	4 35,650,000
COST OF SALES			
Cost of international calling	4,200,000	6,000,000	7,500,000
Non recurring build out	2,095,640	7,677,000	
Monthly charges network	3,528,000	8,601,600	12,902,400
Co-location costs	87,525	292,000	292,000
Other monthly charges	18,862,200	102,272,100	127,840,125
ISP charges	1,134,000	3,906,000	8,788,500
Other			
Total Cost of Sales	29,907,365	128,748,700	157,323,025
Gross Profit (loss)	26,232,635	219,771,300	278,326,975
OPERATING EXPENSES			
Depreciation and amortization			
Other	-	-	-
SELLING, GENERAL & ADMINISTRATIVE			
Total SG&A	25,200,000	54,438,000	65,109,600
Total Operating expense	25,200,000	54,438,000	65,109,600
Interest expense	4,189,500	14, 430,500	32,468,625
Operating income	(3,156,865)	150,902,800	180,748,750
Other income (expense)	(1,042,000)	-	-
EBITDA	$ (4,198,865)	$ 150,902,800	$ 180,748,750

Moise Benedid

Mr. Benedid has served as the President of the Company's Canadian subsidiary Info Systems since August 1996. From November 1994 through July 1996, Mr. Benedid served as Vice President in charge of marketing and technical support for TelePower International, Inc. and from December 1992 to November 1994 he served as President of Powerpoint Microsystems, Inc.

Zvi Barak, PhD

Dr. Barak has served as the Director of Research and Development of the Company's Computer Telephony and Telecommunications division since April, 1996. From 1992 to August 1996, Dr. Barak served as President of Info Systems. He currently serves as the President of Computer Business Sciences Israel Division.

Technical Directors

Dale Harris, PhD

Executive Director, Center for Telecommunications Consulting Professor of Electrical Engineering -

Education: B.S., University of Texas at Austin; M.S. and Ph.D., University of California at Berkeley.

Research Interests: Intelligent telecommunications networks; broadband network design and multimedia applications; distance education and asynchronous learning networks.

Professional Experience: Director of Strategic Technology Assessment and Executive Director of the Advanced Technology Division, Pacific Bell (1983-1991); California Institute of Technology faculty (1985); Project Manager of Electronic Messaging Systems, Bank of America (1981-1983); Director of Technology Systems, Letterman Army Institute of Research (1977-1981); Harvard University faculty and staff (1972-1977).

Recent Professional Activities: Year 2000 IEEE Global Communications Conference Technical Program Chairman; Academic Advisory Council for The Corporation for Educational Network Initiatives in California (CENIC); Scientific Advisory Board, Swedish Institute of Computer Science and the Royal Institute of Technology; Editorial Board, Internetwork Magazine; IEEE 1994 Global Communications Conference Technical Program Chairman; Chairman, Bellcore Applied Research Advisory Committee; Vice Chairman, IEEE 1990 Global Communications Conference Executive Committee; National Technological University Management of Technology Industrial Executive Committee; Exchange Carriers Standards Association International Relations Committee; University of Southern California Communication Sciences Institute Advisory Board; University of California at Davis Commission of Electrical Engineering Board of Advisors.

Memberships: Tau Beta Pi; Senior Member of IEEE Communications, Computer and Engineering Management Societies; New York Academy of Sciences.

Honors: US Distance Learning Association award for "Most Significant Advancement in Research in the Field of Distance Learning"; Commission of the Army Commendation (for information systems development); Muscular Dystrophy Association Fellow; National Institutes of Health Fellow; University of Texas Engineering Fellow.

Publications: 15 journal publications; author of chapters in four books; numerous conference papers.

David L. Tennenhouse, PhD

Dr. Tennenhouse is an Associate Professor of Computer Science and Electrical Engineering at MIT's Laboratory for Computer Science. He is leader of the Telemedia, Networks and Systems Group, which is

addressing "systems" issues arising at the confluence of three intertwined technologies: broadband networks, high definition video, and distributed computing.

Dr. Tennenhouse studied electrical engineering at the University of Toronto, where he received his B.A.Sc. and M.A.Sc. Degrees. In 1989 he completed his Ph.D. at the Computer Laboratory of the University of Cambridge. His Ph.D. research focused on ATM-based site interconnection issues. This work, which was conducted within the Unison Project, led to the early implementation of an ATM-based wide are testbed.

Current Research

At the core of the group's activities are two large systems projects: the ViewStation research program, on distributed video systems, and the Aurora gigabit testbed. The ViewStation program is pioneering a very software intensive approach to the capture, processing, transmission, storage, and display of full motion video sequences. AURORA is one of five gigabit networking testbeds funded by the Corporation for National Research Initiatives under a grant from NSF and ARPA. The TNS group's contributions to AURORA, which are mostly related to gigabit endworking includes work on: local distribution, host interfacing, and end system protocol software.

Fouad Tobagi, PhD

Professor of Electrical Engineering and, by courtesy, Computer Science High-Speed and Multimedia Networking and Communications

Education: Engineering Diploma, Ecole Centrale des Arts et Manufacturers (Paris, France); M.S., Ph.D., Computer Science, University of California, Los Angeles.

A member of the Stanford Faculty since 1978. Professor Tobagi is also a cofounder of Starlight Networks, a venture concerned with multimedia networking and video servers, where he has been serving as chief technical officer since November 1991.

Research Interests: Broadband Integrated Services Digital Networks, High Speed ATM Networks (switching, routing, and congestion control), Multimedia Applications (on-line distance learning and desktop video conferencing), Multimedia Systems (video servers and storage systems for multimedia information, including disk arrays and tertiary mass storage systems), and Multimedia Networking, including network infrastructures (local and wide area networks), network protocols (multipoint session layer protocols, real-time multicase transport protocols, multicase and QoS routing protocols), and network management and control (resource allocation and reservation, admission control).

Professional Experience: Professor Tobagi has served as editor for the IEEE Transactions on Communications, as well as other journals. He was coeditor for a number of special issues of the IEEE Journal on Selected Areas in Communications and of the Proceedings of the IEEE; topics include Local Area Networks, Packet Radio Networks, and Large Scale ATM Switching Systems for B-ISDN. He is currently on the editorial board of the ACM Journal on Multimedia Systems, the Journal on Multimedia Tools and Applications, and the Journal on Wireless Networks. Since 1991, he has also been affiliated with Starlight Networks, Inc., a company concerned with multimedia networking and video servers, where he has been serving as Chief Technical Officer.

Honors: Professor Tobagi is a Fellow of the IEEE. He was the winner of the 1981 Leonard G. Abraham Prize Paper Award in the field of Communications Systems, and winner of the IEEE 1984 Communication Magazine Prize paper award.

Publications: Author of several book chapters and numerous papers; coeditor of Advances in Local Area Networks, a book published in the series "Frontiers in Communications" published by the IEEE Press.

EXHIBIT JJG-5

ILLUSTRATIVE TARIFF

TITLE SHEET

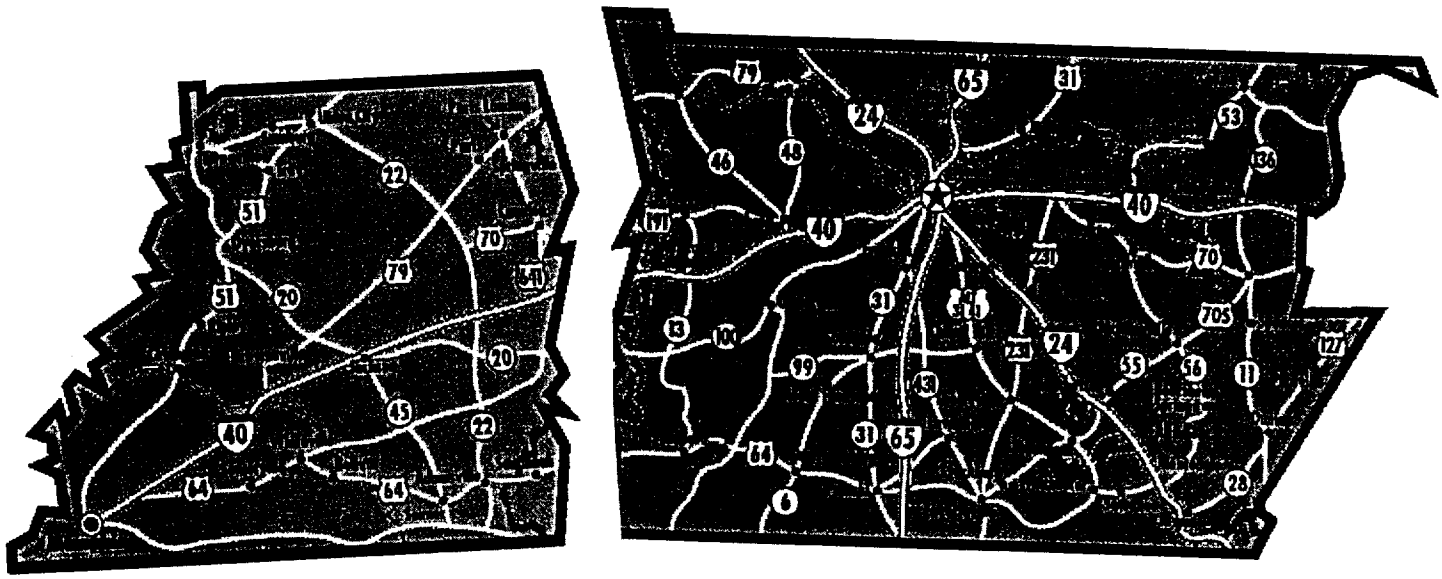
LOCAL EXCHANGE TENNESSEE TELECOMMUNICATIONS TARIFF

This tariff is only effective in those areas where the Company has approved interconnection agreements with the incumbent local exchange carriers serving those areas.

This local exchange tariff contains the descriptions, regulations and rates applicable to the provision of intrastate facilities-based local exchange telecommunications services provided by Computer Business Sciences, Inc., with principal offices at 80-02 Kew Gardens Road, Suite 5000, Kew Gardens, New York 11415, within the following areas of the State of Tennessee:

Memphis and Nashville

Service Areas for Computer Business Sciences, Inc.



CHECK SHEET

The sheets listed below, which are inclusive of this local exchange tariff, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date at the bottom of this page.

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SYMBOLS SHEET

The following are the only symbols used for the purposes indicated below:

D	Delete or Discontinue
I	Change Resulting In An Increase to a Customer's Bill
M	Moved from Another Tariff Location
N	New
R	Change Resulting In a Reduction To a Customer's Bill
T	Change in Text or Regulation but no Change in Rate or Charge

TARIFF FORMAT SHEETS

A. Sheet numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between pages 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Tennessee Regulatory Authority. For example, the fourth revised Sheet 14 cancels the third revised Sheet 14. Because of various suspension periods, deferrals, etc., the Tennessee Regulatory Authority follows in their tariff approval process, the most current sheet number on file with the Authority is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

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2.1.1
2.1.1.A.
2.1.1.A.1
2.1.1.A.1(a)
2.1.1.A.1(a)I
2.1.1.A.1(a)I(i)
2.1.1.A.1(a)I(i)(1)

D. Check Sheets - When a tariff filing is made with the Tennessee Regulatory Authority, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross-reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (*i.e.*, the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Tennessee Regulatory Authority.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Access Line: An arrangement which connects the customer's location to the Company's network switching center.

Authorization Code: A numerical code, one or more of which are available to a customer to enable him/her to access the carrier, and which are used by the carrier both to prevent unauthorized access to its facilities and to identify the customer for billing purposes.

Authorized User: A person, firm, corporation, or any other entity authorized by the Customer to communicate utilizing the Company's service.

Business: A class of service provided to individuals engaged in business, firms, partnerships, corporations, agencies, shops, works, tenants of office buildings, and individuals practicing a profession or operating a business who have no offices other than their residences and where the use of the service is primarily or substantially of a business, professional or occupational nature.

Central Office: A location where there is an assembly of equipment that establishes the connections between subscriber access lines, trunks, switched access circuits, private line facilities, and special access facilities with the rest of the telephone network.

Authority: Tennessee Regulatory Authority.

Company or **Carrier:** Computer Business Sciences, Inc. ("CBS")

Customer: The person, firm, corporation or other entity which orders service and is responsible for payment of charges due and compliance with the Company's tariff regulations.

End User: Any person, firm, corporation, partnership or other entity which uses the services of the Company under the provisions and regulations of this tariff. The End User is responsible for payment unless the charges for the services utilized are accepted and paid by another Customer.

Equal Access: The ability of a long distance carrier to serve Customers on a presubscribed basis rather than through the use of dial access codes.

Exchange: A central office or group of central offices, together with the Customer's stations and lines connected thereto, forming a local system which furnishes means of telephonic intercommunication without toll charges between Customers within a specified area, usually a single city, town or village.

Extended Area Service: A type of service where Customers of a given exchange may complete calls to and, where provided by the tariff, receive messages from one or more exchanges without the application of long distance message telecommunications charges.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (cont'd)

Individual Case Basis (ICB): A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

Intra-LATA Toll Messages: Those toll messages which originate and terminate within the same LATA.

LEC: Local Exchange Company.

Message: A completed call.

Premises: A building or buildings on contiguous property.

P.S.C.K.: Tennessee Regulatory Authority

Residence or Residential: A class of service furnished to a Customer at a place of dwelling where the actual or obvious use is for domestic purposes.

Rotary: Routes a call to an idle Station line.

Special Construction: Service configurations specifically designed and constructed at a Customer's request.

XDSL: A variety of digital subscriber line services.

SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company. The Company's services and facilities are furnished for communications originating at specified points within the state of Tennessee under terms of this tariff.

The Company installs, operates and maintains the communications services provided herein in accordance with the terms and conditions set forth under this tariff. It may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the Company's network. The Customer shall be responsible for all charges due for such service arrangement.

The Company's services and facilities are provided on a monthly basis unless ordered on a longer-term basis, and are available twenty-four (24) hours per day, seven (7) days per week.

2.2 Limitations

2.2.1 Service is offered subject to the availability of facilities and provisions of this tariff.

2.2.2 The Company reserves the right to discontinue furnishing service or limit the use of service necessitated by conditions beyond its control; or when the Customer is using service in violation of the law or the provisions of this tariff.

2.2.3 All facilities provided under this tariff are directly controlled by the Company and the Customer may not transfer or assign the use of service or facilities, except with the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

2.2.4 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

2.2.5 Customers reselling or rebilling services must have a Certificate of Public Convenience and Necessity as an alternative local exchange carrier for the Tennessee Regulatory Authority.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.3 Liabilities of the Company

2.3.1 The provisions of this section do not apply to errors and omissions caused by the willful misconduct, fraudulent conduct or violations of laws by the Company.

2.3.2 In the event an error or omission is caused by the gross negligence of the Company, the liability of the Company shall be limited to and in no event exceed the sum of $10,000.

2.3.3 Computer Business Sciences, Inc.'s liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in the transmission occurring in the course of furnishing service or facilities, and not caused by the negligence of its employees or its agents, in no event shall exceed an amount equivalent to the proportionate charge to the customers for the period during which the aforementioned faults in transmission occur, unless ordered by the Authority; i.e., if the fault lasts for up to 48 hours, customer would not be charged for 1/3rd month of service, up to 72 hours customer would not be charged for 2/3rds of a month of service and 96 hours customer would not be charged for a full month of service.

2.3.4 Acceptance by the Authority of the liability provisions contained in this tariff does not constitute its determination that the limitation of liability imposed by the Company should be upheld in a court of law, but the recognition that, as it is the duty of the courts to adjudicate negligence claims and rights to recover damages therefor, so it is the duty of the courts to determine the validity of the exculpatory provisions of this tariff.

2.3.5 The liability of the Company for service irregularities shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the service for the period during which the service irregularity exists. Service irregularities are defined as mistakes, omissions, interruptions, delays, errors, or defects in transmission, or failure of or defects in the service and/or facilities furnished by the Company which occur in the course of furnishing service or facilities and are not caused by the negligence of the Customer or the negligence of the Company in failing to maintain proper standards of maintenance or operation, or to exercise reasonable supervision.

2.3.6 The Company shall not be liable for any failure of performance due to causes beyond its control, including, without being limited to, acts of God, fires, floods or other catastrophes, national emergencies, insurrections, riots or wars, strikes, lockouts, work stoppage or other labor difficulties, acts or omissions of other carriers, and any law, order, regulation or other action of any governing authority or agency thereof.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.4 Uses of Service

2.4.1 Service may be used by the Customer for any lawful purpose for which the service is technically suited.

2.4.2 The Customer obtains no property right or interest in the use of any specific type of facility, service, equipment, number, process or code. All rights, title and interest to such items remain, at all times, solely with the Company.

2.4.3 Recording of telephone conversations of service provided by the Company under this tariff is prohibited except as authorized by applicable federal, state and local laws.

2.4.4 Service may only be resold or shared in accordance with the provisions of the specific service. Specifically, residential service may only be used, resold, or shared for noncommercial purposes. The Customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The Customer may advise its Customers that a portion of its service is provided by the Company, but the Customer shall not represent that the Company jointly participates with the Customer in the provision of the service.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.4 Uses of Service (cont.)

2.4.5 Any individual or company who uses or receives service from the Company, other than the provisions of an accepted application for service and a current Customer relationship, shall be liable for the tariff cost of the services received and may be liable for reasonable court costs and attorney fees as determined by the court.

2.4.6 The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition (subject to reasonable wear and tear). The Customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the Customer's premises, including loss or damage caused by agents, employees or independent contractors of the Customer through any negligence.

2.4.7 Unauthorized Use

A. Service shall not be used to make unlawful expressions, to impersonate another person with fraudulent or malicious intent, or to call another so frequently or at such times of day or in any other manner so as to annoy, abuse, threaten or harass.

B. Service shall not be used for any purpose in violation of law.

C. Service shall not be used in such a manner as to interfere unreasonably with the use of the service by one or more other Customers, or interfere with the Company's reasonable ability to provide the service to others.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.5 Responsibilities of the Customer

2.5.1 The Customer is responsible for: 1) placing any necessary orders; 2) complying with tariff regulations; 3) assuring that users comply with tariff regulations; 4) payment of charges for calls originated from the Customer's telephone lines.

2.5.2 The Customer is responsible for arranging access to its premises at times mutually agreeable to Company and the Customer when required for installation, repair, maintenance, inspection or removal of equipment associated with the provision of Company services.

2.5.3 The Customer is responsible for maintaining its terminal equipment and facilities in good operating condition. The Customer is liable for any loss, including loss through theft, of any Company equipment installed at Customer's premises.

2.5.4 The Customer shall be responsible for all calls placed by or through Customer's equipment by any person. In particular and without limitation to the foregoing, the Customer is responsible for any calls placed by or through the Customer's equipment via any remote access features. The Customer is responsible for all calls placed via their authorization code as a result of the Customer's intentional or negligent disclosure of the authorization code.

2.5.5 The Customer and any authorized or joint users, jointly and serially, shall indemnify and hold the Company harmless from claims, loss, damage, expense (including reasonable court costs and attorneys fees as determined by the court), or liability for patent infringement arising from 1) combining with, or using in connection with facilities the Company furnished, facilities the Customer, authorized user, or joint user furnished, or 2) use of facilities the Company furnished in a manner the Company did not contemplate and over which the Company exercises no control and from all other claims, loss, damage, expense (including the reasonable court costs and attorneys fees as determined by the court), or liability arising out of any commission or omission by the Customer, authorized user, or joint user in connection with the service. In the event that any such infringing use is enjoined, the Customer, authorized user, or joint user, at its option and expense, shall obtain immediately a dismissal or stay of such injunction, obtain a license or other agreement so as to extinguish the claim of infringement, terminate the claimed infringing use, or modify such combination so as to avoid any such infringement.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.5.5 Responsibilities of the Customer (cont.)

In addition and without limitation, the Customer, authorized user, or joint user shall defend, on behalf of the Company and upon request by the Company, any suit brought or claim asserted against the Company for any such claims, including but not limited to slander, libel or infringement.

2.6 Interruption of Service

2.6.1 Credit allowance for the interruption of service which is not due to the Company's testing or adjusting, negligence or the Customer, or to the failure of channels or equipment provided by the Customer, are subject to the general liability provisions set forth in 2.3.3 herein. It shall be the Customer's obligation to notify the Company immediately of any service interruption for which a credit allowance is desired. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer within his control, if any, furnished by the Customer and connected to the Company's facilities. No refund or credit will be made for the time that the Company stands ready to repair the service and the subscriber does not provide access to the Company for such restoration work.

2.6.2 No credit shall be allowed for an interruption of a continuous duration of less than twenty-four (24) hours after the subscriber notifies the Company.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.7 Disconnection of Service by Carrier. The Company (carrier), upon fourteen (14) working days' written notice to customer with a second written notice to customer seven (7) days before actual disconnection, may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

2.7.1 Non-payment of any sum due to carrier for regulated service for more than thirty (30) days beyond the date of rendition of the bill for such service.

2.7.2 A violation of any regulation governing the service under this tariff.

2.7.3 A violation of any law, rule or regulation of any government authority having jurisdiction over such service.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.8 Deposits. The Company may, at its sole discretion, require a deposit from the Customer as a condition to receiving service or additional services. The Company reserves the right to review an applicant's or a Customer's credit history at any time to determine if a deposit is required. The amount of such deposit shall not exceed twice the estimated average monthly bill for the class of service for which the deposit is to be applied. Interest on deposits will be set at the 3-month commercial paper rate published by the Federal Reserve Board, except no interest will be paid if the Customer has received a minimum of two discontinuance of service notices in a 12-month period. The fact that a deposit has been made neither relieves the Customer from complying with the Company's regulation on the prompt payment of bills on presentation nor constitutes a waiver or modification of the regulations of the Company providing for the discontinuance of service for nonpayment of any sums due the Company for services rendered.

Upon discontinuance or termination of service, the Company will credit the deposit to the charges stated on the final bill. The balance, if any, will be returned to the Customer within 30 days of rendition of the final bill, and will include any interest on the deposit as set forth above.

After prompt and timely payment of all charges for 12 consecutive billing periods, within 30 days, the Company will refund the deposit to the Customer. The refund will include interest at the rate set forth above. Payment of a charge is satisfactory if received prior to the date that the charge becomes delinquent provided that it is not returned for insufficient funds or closed account. However, deposits may not receive interest if the Customer has received a minimum of two notices of discontinuance of service for nonpayment of bills in a 12-month period.

2.9 Advance Payments. For Customers whom the Company feels an advance payment is necessary, the Company reserves the right to collect an amount. Such amount shall be equal to two (2) months' service charges and/or the service connection and/or equipment charges which may be applicable, as well as any nonrecurring charges for any required special construction. The amount of the first month's service is credited to the Customer's account on the first bill rendered.

2.10 Taxes. All state and local taxes (*i.e.*, gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.11 Billing of Calls. All charges due by the subscriber are payable at any agency duly authorized to receive such payments. Any objection to billed charges should be promptly reported to the Company. Adjustments to Customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate.

2.12 Minimum Call Completion Rate. A Customer can expect a call completion rate comparable to that of the local underlining carrier.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.13 Application for Service

Service is installed by arrangement between the Company and the Customer.

2.13.1 A Customer desiring to obtain service may do so based on an oral or written agreement. In order to initiate service, the Customer must provide the following information: an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.

The Company shall designate an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

If the service agreement is made verbally, the Company will, within 5 days of initiating the service order, provide a confirmation letter setting forth a brief description of the services ordered and itemizing all charges which will appear on the Customer's bill. Within 5 days of initiating service, the Company shall state in writing for all new Customers all material terms and conditions that could affect what the Customer pays for telecommunications service provided by the Company. If services requested by Customer are bundled, however, by agreement with the Customer, bundled services will not be initiated for up to 60 days.

Potential Customers who are denied service for failure to establish credit or pay the required deposit will be notified in writing by the Company of the reason for the denial within 10 days of the denial.

2.13.2 Cancellation of Application for Service

No charge applies when the applicant cancels an application for service prior to the start of installation or special construction.

When an applicant cancels an application for service after the start of installation or special construction, the applicant shall pay a cancellation fee which is the lesser of 1) the costs incurred by the Carrier, or 2) the charge for the minimum period of the service ordered, plus applicable installation charges.

Customers of Computer Business Sciences, Inc. may cancel service by providing thirty (30) days' written notice to Computer Business Sciences, Inc. Customers are responsible for all charges, including fixed fees, which accrue up to the cancellation date.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.13 Application for Service (cont.)

2.13.3 Cancellation of Service

The Customer may have service discontinued upon verbal or written notice to the Company. The Company shall hold the Customer responsible for payment of all bills for services furnished until the cancellation date specified by the Customer or until the date that the written cancellation notice is received, whichever is later. A termination liability charge applies to early cancellation of a term agreement.

At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve the Customer of his or her obligation to pay any charges incurred under the Service Order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the terms of the Service Order shall survive such termination.

2.13.4 Termination Liability

Unless otherwise specified in individually negotiated contracts, the termination liability for services purchased under a Term Agreement will equal to the lesser of either:

A. 20% of the balance of the total billing payable during the life of the term; or

B. the difference between the monthly rate for the selected term plan and the monthly rates for the longest term plan that Customer could have satisfied prior to early discontinuance of service.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.14 Discontinuance and Restoration of Service

2.14.1 Discontinuance of Service

A. A Customer may have service discontinued upon oral or written notice to the Company on or before the date of disconnection. Customers remain responsible for payment of all bills for services furnished.

B. If a Customer cancels his or her order for service before the service begins, a charge equal to the greater of $25.00 or the actual costs incurred by the Company in provisioning the service prior to the cancellation will be levied upon the Customer. However, no charge will be levied if a Customer cancels his or her service within three (3) days of the date the order was placed in writing or within three (3) days of the date of the Company's written confirmation. No cancellation charge applies to orders canceled due to delays in installation that are caused by the Company that are five (5) days past the promised due date. The Customer will be informed of the cancellation charge at the time the order is placed.

C. No minimum or termination charge will apply if service is terminated because of condemnation, destruction, or damage to the property by fire or other causes beyond the control of the Customer.

D. Upon termination, presubscribed Customers may be held responsible for charges thereafter if the Customer has not selected an alternative local exchange carrier and service has not been transferred to the alternative carrier and such Customer is continuing to receive service from the Company.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.14 Discontinuance and Restoration of Service (cont.)

2.14.1 Discontinuance of Service (cont.)

E. The Company may discontinue service under the following circumstances:

1. Nonpayment of any sum due to the Company for service more than 30 days beyond the date of the invoice for such service. In the event the Company terminates service for nonpayment, the Customer may be liable for all reasonable court costs and attorneys fees as determined by the court.

2. A violation of, or failure to comply with, any regulation governing the furnishing of service.

3. An order from a court from another government authority having jurisdiction which prohibits the Company from furnishing service.

4. Failure to post a required deposit or guarantee.

5. In the event that the Customer supplied false or inaccurate information of a material nature in order to obtain service.

6. Any violation of the conditions governing the furnishing of service.

F. Service may be refused or disconnected in the event of illegal use or of intent to defraud the Company. The Company may disconnect service for this reason after sending written notice certified mail to the Customer's last known address.

G. Written notice of the pending disconnection will be rendered not less than 14 days prior to the disconnection, with a second notice sent to the Customer 7 days before actual disconnection. Notice shall be deemed given upon deposit, first class postage prepaid, in the U.S. Mail to the Customer's last known address.

Service may be discontinued during business hours on or after the date specified in the notice of discontinuance. Service is not initially discontinued on any Saturday, Sunday, legal holiday, or any other day the Company service representatives are not available to serve Customers.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.14 Discontinuance and Restoration of Service (cont.)

2.14.1 Discontinuance of Service (cont.)

H. Notice of Disconnection. Written notice will state:

1. the name and address of the Customer whose account is delinquent;
2. the reason for the discontinuance;
3. the amount that is delinquent (if applicable);
4. the date when payment or arrangements for payment are required in order to avoid termination;
5. the procedure the Customer may use to initiate a complaint or to request an investigation concerning service or disputed charges;
6. the procedure the Customer may use to request amortization of the unpaid charges;
7. the telephone number of the Company representative who can provide additional information or institute arrangements for payment;
8. the telephone number of the Tennessee Consumer Affairs Division where the Customer may direct inquiries.

I. Restoration of Service.

Unless prevented by circumstances beyond the Company's control or unless a subscriber requests otherwise, the Company shall reconnected previously disconnected service by 5 p.m. on the next business day following either:

A) Receipt by the Company or its authorized Agent, of the full amount in arrears for which service was disconnected, or upon verification by the Company that conditions which warranted disconnection of service have been eliminated; or
B) Agreement by the Company and the subscriber on a deferred payment plan and a payment, if required, under the plan.

Before restoring service under this rule, the Company may not insist upon payment of any new bill that is not past due if that bill did not itself provide the basis for disconnection.

Payment received by an authorized Agent of the Company shall be treated in the same manner as payment made directly to the Company.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.15 Temporary Suspension for Repairs

The Company shall have the right to make necessary repairs or changes in its facilities at anytime and will have the right to suspend or interrupt service temporarily for the purpose of making the necessary repairs or changes in its system. When such suspension or interruption of service for any appreciable period of time is necessary, the Company will give the Customers who may be affected as reasonable notice thereof as circumstances will permit, and will prosecute the work with reasonable diligence, and if practicable at times that will cause the least inconvenience.

When the company is repairing or changing its facilities, it shall take appropriate precautions to avoid unnecessary interruptions of conversations or Customers' service.

The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission, which specifies the priority system for such activities.

2.16 Special Construction And Special Arrangements

2.16.1 Subject to the agreement of the Company and to all of the regulations contained in this tariff or any applicable contract, special construction and special arrangements may be undertaken on a reasonable effort basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications service not otherwise specified under this tariff or any applicable contract, or for the provision of service on an expedited basis or in some other manner different from the normal tariff or contract conditions. Special construction is that construction undertaken:

A. Where facilities are not presently available, and there is no other requirement for the facilities so constructed,

B. Of a type other than that which the Company would normally utilize in the furnishing of its services,

C. Over a route other than that which the Company would normally utilize in the furnishing of its services,

D. In a quantity greater than that which the Company would normally construct,

E. On an expedited basis,

SECTION 2 - RULES AND REGULATIONS (cont.)

2.16.1 Special Construction And Special Arrangements (cont'd)

F. On a temporary basis until permanent facilities are available,

G. Involving abnormal costs, or

H. In advance of its normal construction.

2.16.2 Basis for Charges

Where the Company furnishes a facility on special construction basis, or any service for which a rate or charge is not specified in this tariff, charges will be based on the costs incurred by the Company and may include the following: (i) non-recurring type charges, (ii) recurring type charges, (iii) termination liabilities or (iv) combinations thereof the agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service of the facilities provided.

2.16.3 Basis for Cost Computation - The costs referred to in Section 2.16.2 preceding may include one or more of the following items to the extent they are applicable:

A. Cost installed of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Cost installed includes the cost of. (i) equipment and materials provided or used, (ii) engineering, labor and supervision, (iii) transportation, (iv) rights of way and (v) any other item chargeable to the capital account.

B. Annual charges including the following: (i) cost of maintenance, (ii) depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage, (iii) administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items, (iv) any other identifiable costs related to the facilities provided and (v) an amount for return and contingencies.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.16.4 Termination Liability. To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the Customer.

A. The maximum termination liability is equal to the total cost of the special facility as determined under Section 2.17.3, preceding, adjusted to reflect the predetermined estimated net salvage, including any reuse of the facilities provided.

B. The maximum termination liability as determined in paragraph A.) shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six (6) percent, plus applicable taxes.

2.16.5 Maintenance Charge - A maintenance charge shall apply when a user requests the dispatch of the Company's personnel for the purpose of performing maintenance activity on the Company's facilities and the trouble condition is found to result from equipment, facilities, or systems not provided by the Company.

2.17 Universal Emergency Telephone Number Service (911, E911)

2.17.1 This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects, or malfunctions in the service, nor does the Company undertake such.

2.17.2 911 information consisting of the names, addresses and telephone numbers of all telephone customers is confidential. The Company will release such information via the Data Management System only after a 911 call has been received, on a call by call basis, only for the purpose of responding to an emergency call in progress.

2.17.3 The 911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number, name, and address associated with the originating station location are furnished to the Public Safety Answering Point.

2.17 Universal Emergency Telephone Number Service (911, E911), (Cont'd.)

2.17.4 After the establishment of service, it is the Public Safety Agency's responsibility to continue to verify the accuracy of and to advise the Company of any changes as they occur in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies' jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other similar matter that may affect the routing of 911 calls to the proper Public Safety Answering Point.

2.17.5 The Company assumes no liability for any infringement, or invasion of any right of privacy of any person or persons caused, or claimed to be caused, directly or indirectly by the use of 911 Service. Under the terms of this tariff, the Public Safety Agency must agree, (except where the events, incidents, or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct), to release, indemnify, defend and hold harmless the Company from any and all losses or claims whatsoever, whether suffered, made, instituted, or asserted by the Public Safety Agency or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage, or destruction of any property, whether owned by the customer or others. Under the terms of this tariff, the Public Safety Agency must also agree to release, indemnify, defend and hold harmless the Company for any infringement of invasion of the right of privacy of person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion, or use of 911 service features and the equipment associated therewith, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address, or name associated with the telephone used by the party or parties accessing 911 Service hereunder, and which arise out of the negligence or other wrongful act of the Public Safety Agency, its user, agencies or municipalities, or the employees or agents of any one of them, or which arise out of the negligence, other than gross negligence or willful misconduct, of the Company, its employees or agents.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES

3.1 General

3.1.1 Service Order and Installation Charge. The Service Order and Installation Charge is a nonrecurring charge which applies to administrative processing of orders for the installation of a new service, and the installation of equipment required for the provision of service.

	Minimum	Maximum
Service Order and Installation Charge:	$25	$250

3.1.2 Business and Residential Exchange Service -- Monthly Service Rates

Business and Residential Exchange Services provide a business or residential customer with a connection to the Company's switching network which enables the Customer to:

A. receive calls from other stations on the public switched telephone network;

B. access the Company's local calling service;

C. access the Company's operators and business office for service related assistance, access toll-free telecommunications service such as 800 NPA, and access 911 service for emergency calling; and

D. access the service of providers of interexchange service. A Customer may presubscribe to such provider's service to originate calls on a direct dialed basis or to receive 800 service from such provider, or may access a provider on an ad hoc basis by dialing the provider's Carrier Identification Code (10XXX).

Business and Residential Exchange Services are provided via one or more channels terminated at the Customer's premises. Each Business and Residential Services channel corresponds to one or more digital, voice-grade telephonic communications channels that can be used to place or receive one call at a time.

Business and Residential Exchange Services include XDSL broadband services; cable TV; local dial tone; and high speed Internet Access, which services may be purchased on a bundled or unbundled basis. The Company also offers other bundled packages, including video conferencing, a video broadcast network, video on demand, and computer and software support. Connection charges apply to all service on a one-time basis unless waived pursuant to this tariff.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.1 General (cont.)

3.1.2 Business and Residential Exchange Service -- Monthly Service Rates (cont.)

The monthly charges for Business and Residential Exchange Services are as follows:

Bundled Services on net:	Minimum	Maximum
Local Exchange Dial Tone:	$15 per month	$20 per month
High Speed Internet Access:	$20 per month	$25 per month
High Speed Access (XDSL):	$65 per month	$75 per month
Cable:	$30 per month	$50 per month

3.2 Network Switched Service (offnet)

3.2.1 General

Network Switched Service is provided via one or more channels terminated at the Customer's premises. Each Network Switched Service channel corresponds to one or more analog, voice-grade telephonic communications channels that can be used to place or receive one call at a time.

Network Switched Service provides a Customer with a connection to the Company's switching network which enables the Customer to:

- receive calls from other stations on the public switched telephone network;
- access the Company's local calling service;
- access the Company's (or its underlying carrier's) operators and business office for service related assistance; access toll-free telecommunications services such as 800 NPA; and access 911 service for emergency calling; and
- access the service of providers of interexchange service. A Customer may presubscribe to such provider's service to originate calls on a direct dialed basis or to receive toll-free service from such provider, or may access a provider on an ad hoc basis by dialing the provider's Carrier Identification Code (such as 1 OXXX or 10 1 XXXXX).

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.1 General (cont'd)

Business or Residential Access Lines are provided for connection to Customer provided terminal equipment. Nonrecurring, recurring, and usage charges apply as described herein.

The local calling area (i.e, exchange and EAS calling) mirrors the local calling area for basic local exchange service provided by the incumbent local exchange company for the same exchange.

A white pages standard directory listing is included with each unit of wireline service.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.2 Nonrecurring Charges – Bell South (Offnet)

	Minimum	Maximum
Residential		
Service Order	$8.00	$32.00
Central Office Connection	$4.00	$16.00
Line Connection	$5.00	$20.00
Change in service		
Simple	$4.50	$18.00
Complex	$14.00	$56.00
Add or change line features		
Simple	$3.50	$14.00
Complex	$4.00	$16.00
Maintenance Charge		
Simple	$12.50	$50.00
Complex	.$25.00	$100.00
Business		
Service Order		
Simple	$13.00	$52.00
Complex	$20.00	$80.00
Central Office Connection		
Simple	$6.50	$26.00
Complex	$8.50	$34.00
Line Connection		
Simple	$12.00	$48.00
Complex	$8.00	$32.00
Change in service		
Simple	$4.50	$18.00
Complex	$14.00	$56.00
Add or change line features	$3.50	$14.00
Maintenance Charge		
Simple	$12.50	$50.00
Complex	$25.00	$100.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.3 Other Nonrecurring Charges (Offnet)

1. Service Restoral

A Service Restoral charge applies when service is reconnected after suspension or disconnection as provided in Section 2.14.1 of this tariff. The Service Restoral charge applies in addition to all other applicable charges.

	Minimum	Maximum
Per Occurrence:		
Bell South Areas		
Residential:		
Simple	$15.00	$60.00
Complex	$30.00	$120.00
Business:		
Simple	$15.00	$60.00
Complex	$40.00	$160.00

2. Primary Interexchange Carrier (PIC) Change Charge

A PIC Change charge applies when the Customer changes the primary interexchange service on a business or residence exchange line after the initial installation of service.

	Minimum	Maximum
Per PIC Change, per line:		
Bell South Areas	$2.00	$10.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.4 Recurring Charges (Offnet)

Bell South Areas

The following access areas, i.e., rate schedule groups, are based on access areas as defined in Section 3.5. Volume discounts are available.

Minimum:

	Access Areas		
Service Type	A	B	C
Residential	$3.50	$3.50	$3.50
Business Line	$10.00	$11.00	$11.00
Business Trunk, Rotary Line	$12.00	$13.00	$13.00

Maximum:

	Access Areas		
Service Type	A	B	C
Residential	$14.00	$14.00	$14.00
Business Line	$40.00	$44.00	$45.00
Business Trunk, Rotary Line	$48.00	$50.00	$52.00

3.2.5 Usage Charges

A. Bell South Areas (Off-net)

Per Minute	
Minimum	Maximum
$0.0349	$0.0087

B. Bell South Areas

Rates are not distance-sensitive.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.6 Optional Calling Features

	Minimum	Maximum
Bell South Areas		
Residential		
Call block	$0.50	$2.00
Call forwarding	$2.00	$8.00
Call return	$2.00	$8.00
Call selector	$2.00	$8.00
Call tracing, per successful trace	$1.75	$7.00
Call waiting	$2.50	$10.00
Caller identification	$3.25	$13.00
Distinctive ringing	$2.00	$8.00
Repeat dialing	$2.00	$8.00
Three-way calling	$2.00	$8.00
Business		
Call block	$0.50	$2.00
Call forwarding	$2.00	$8.00
Call return	$2.00	$8.00
Call selector	$2.00	$8.00
Call tracing, per successful trace	$1.75	$7.00
Call waiting	$3.00	$12.00
Caller identification	$3.25	$13.00
Distinctive ringing	$2.00	$8.00
Repeat dialing	$2.00	$8.00
Three-way calling	$3.00	$8.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.7 Customer Local Area Signaling Services (CLASS) Blocking

A. Per Call Blocking (Calling number delivery blocking)

This blocking enables Customers to prevent the disclosure of their telephone number on a per call basis to the called party. The disclosure of the calling party's number can be prevented on a per call basis by dialing *(TBD) from a touchtone phone, or (TBD) from a rotary dial phone, to activate the block. This action must be repeated each time a call is made to prevent the disclosure of the calling party's telephone number. If the called party has a display device, a privacy indication will appear instead of the calling party's telephone number. Per Call Blocking will be provided on a universal basis to all eligible customers. All public and semi-public payphones of the Company will be equipped with Per Call Blocking. This service will be provided free of charge.

B. Per Line Blocking (Calling Number Delivery Suppression)

This blocking enables Customers to prevent the disclosure of their telephone number on all outgoing calls, without the necessity of an activation code. If the called party has a display device, a privacy indication will appear instead of the calling party's telephone number. Per Line Blocking will be provided at no monthly charge on an optional basis to published and non-published customers at their discretion. To deactivate the privacy status, the Customer must dial *(TBD) from a touch-tone phone or (TBD) from a rotary dial phone before placing a call. After completion of the call, the line reverts back to the privacy status. Law Enforcement, domestic Shelters and other special agencies will be offered free Per Line Blocking. Per Line Blocking will not be available to public, semipublic, two-party and four-party service Customers.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.8 Operator Services

Local exchange calls may be placed on an operator assisted basis. For operator assisted calls to Busy Line Verification and Interrupt and for Directory Assistance, the surcharges are specified in Section 3.2.9 below.

Per Call Charges:	**Minimum**	**Maximum**
Person-to-Person	$0.25	$6.00
Station-to-Station	$0.10	$4.00
Billed to Calling Card	$0.05	$3.00

3.2.9 Busy Line Verify and Line Interrupt Service

1. Description

Upon request of a calling party the Company will verify a busy condition on a called line.

A. The operator will determine if the line is clear or in use and report to the calling party.

B. The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

2. Regulations

A. A charge will apply when:

1 . The operator verifies that the line is busy with a call in progress.

2. The operator verifies that the line is available for *incoming calls*.

3. The operator verifies that the called number is busy with a call in progress and the customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.9 Busy Line Verify and Line Interrupt Service (Cont'd)

B. No charge will apply:

1. When the calling party advises that the call is to or from an official public emergency agency.
2. Under conditions other than those specified in A. preceding.

C. Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

D. The Customer shall; identify and hold the Company harmless against all claims that may arise from either party to the interrupted call or any person.

3.2.10 Rates

	Minimum	Maximum
Busy Line Verify Service (each request)	$0.10	$4.00
Busy Line Verify and Busy Line Interrupt Service (each request)	$0.25	$6.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.11 Directory Assistance

The Customer may request a maximum of two telephone numbers per call to Directory Assistance Service. The Directory Assistance charge applies regardless of whether the operator is able to supply the requested number.

	Minimum	Maximum
Per call to Directory Assistance:	$0.15	$0.75

3.2.12 Directory Listings

The Company shall arrange, at no charge, for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings at an additional charge. Specialized listing options are also available.

Listings are intended solely for the purpose of identifying subscribers telephone numbers, and as an aid to the use of telephone service. The listings of subscribers are arranged alphabetically and are not intended for special prominence of arrangement.

Listings must conform to the Company's specifications with respect to the directories. The Company reserves the right to reject listings when, in its sole judgement, such listings would violate the integrity of Company records and the directories, confuse individuals using the directory, or are otherwise deemed inappropriate or problematic.

Liability of the Company due to directory errors and omissions is as specified in Section 2 of this tariff.

Rates for Additional Listings	Minimum	Maximum
Additional Listing Charge	$0.25	$5.00
Non-Published Service		
Non-published service charge, NRC	$1.00	$20.00
Non-published service charge, per month:	$0.10	$4.00
Non-Listed Service		
Non-listed service charge, NRC	$1.00	$20.00
Non-listed service charge, per month:	$0.10	$4.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.13 Current Rates – Network Switched Service (Off-net)

A.	Return Check Charge (Per returned check)	$20.00
B.	Network Switched Service	
	Nonrecurring Charges, Bell South Areas	
	Residential	
	Service Order & Installation Charge	$16.77
	On-Net	$250.00
	Central Office Connection	$7.84
	Line Connection	$10.07
	Change in service	
	Simple	$8.94
	Complex	$27.41
	Add or change line features	
	Simple	$6.65
	Complex	$7.55
	Maintenance Charge	
	Simple	$25.00
	Complex	$50.00
	Business	
	Service Order & Installation Charge	
	Simple	$24.23
	On-Net	$250.00
	Central Office Connection	
	Simple	$12.35
	Complex	$16.15
	Line Connection	
	Simple	$23.13
	Complex	$15.68
	Change in service	
	Simple	$8.84
	Complex	$39.47
	Add or change line features	$7.03
	Maintenance Charge	
	Simple	$25.00
	Complex	$50.00

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.13 Current Rates – Network Switched Service (Off-net) (cont'd)

C. Service Restoral, Per Occurrence – Bell Atlantic Areas:

Residential:	
Simple	$31.87
Complex	$59.19
Business:	
Simple	$31.87
Complex	$83.32

D. Primary Interexchange Carrier (PIC) Change Charge – Bell South Areas

Per PIC Change, per line	$5.00

E. Recurring Charges, Bell South Areas

	Access Areas		
Service Type	B	C	D
Residential	$6.37	$6.37	$6.37
Business Line	$18.95	$20.85	$21.61
Business Trunk, Rotary Line	$22.47	$24.37	$25.13

F. Usage Charges, Bell South Areas

Rate per minute (not distance sensitive)

1st minute (or fraction)	Additional minute (or fraction)
$0.0349	0.0087

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.13 Current Rates – Network Switched Service (Off-net) (cont'd)

G. Optional Calling Features, Bell South Areas

Residential	
Call block	$0.95
Call forwarding	$3.80
Call return	$3.80
Call selector	$3.80
Call tracing, per successful trace	$3.33
Call waiting	$4.51
Caller identification	$6.18
Distinctive ringing	$3.80
Repeat dialing	$3.80
Three-way calling	$3.80
Business	
Call block	$0.95
Call forwarding	$3.80
Call return	$3.80
Call selector	$3.80
Call tracing, per successful trace	$3.33
Call waiting	$5.70
Caller identification	$6.18
Distinctive ringing	$3.80
Repeat dialing	$3.80
Three-way calling	$3.80

H. Operator Services

Per Call Charges:

Person-to-Person	$3.00
Station-to-Station	$1.65
Billed to Calling Card	$0.65

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.2 Network Switched Service (offnet) (cont'd)

3.2.13 Current Rates – Network Switched Service (Off-net) (cont'd)

H. Busy Line Verify and Line Interrupt Service Bell South Areas

Busy Line Verify Service (each request)	$0.90
Busy Line Verify and Busy Line Interrupt Service (each request)	$1.35

I. Directory Assistance Bell South Areas

Per call to directory Assistance:	$0.30

J. Directory Listings Bell South Areas

Rates for Additional Listings:

Additional Listing Charge	$1.95

Non-Published Service

Non-published service charge, NRC	$9.80
Non-published service charge, per month	$1.10

Non-Listed Service

Non-listed service charge, NRC	$9.80
Non-listed service charge, per month	$1.10

3.2.14 Current Rates – Network Bundled Services – Business and Residential (On-net)

Local Exchange Dial Tone:	$15.00 recurring monthly
High Speed Internet Access	$20.00 recurring monthly
High Speed Access (XDSL)	$65.00 recurring monthly
Cable:	$30.00 recurring monthly
Service Order and Installation Charge:	$250.00 non recurring

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.3 Payment of Bills

3.3.1 Rendering and Payment. Customer bills are issued monthly. The Customer will receive its bill on or about the same day of each month. Months are presumed to have 30 days. The billing date is dependent on the billing cycle assigned to the Customer. Each bill contains monthly recurring charges billed in advance, and the last date for timely payment. The Company will pro-rate monthly recurring charges based on a 30 day month.

Bills are due and payable as specified on the bill. Bills may be paid by mail or in person at the business office of the Company or an agency authorized to receive such payment. All charges for service are payable only in United States currency. Payment may be made by cash, check, money order, or cashier's check.

Customer payments are considered prompt when received by the company or its agent by the due date on the bill. The due date is 30 days after the bill is rendered and is designated by the due date on the Customer's bill to timely pay the charges stated. The Company will credit payments within 24 hours of receipt.

3.3.2 Late Payment Charges. Interest charges of 1.5% per month will be assessed on all unpaid balances more than thirty (30) days old. There will not be interest on previously-charged late payment fees.

3.3.3 Return Check Charges. A return check charge of $25.00 will be assessed for checks returned for insufficient funds if the face value does not exceed $50.00; $30.00 if the face value does exceed $50.00 but does not exceed $300.00; $40.00 if the face value exceeds $300.00 or 5% of the value of the check, whichever is greater. The Company may waive the bad check charge under appropriate circumstances.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.4 Emergency Call Exemptions. The following calls are exempted from all charges: Emergency calls to recognizable authorized civil agencies, including police, fire, ambulance, bomb squad and poison control. Computer Business Sciences, Inc. will only handle these calls if the caller dials all of the digits to route and bill the call. Credit will be given for any billed charges pursuant to this exemption on a subsequent bill after verified notification by the billed Customer within thirty (30) days of billing.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.5 Exchange Areas served in Tennessee by Computer Business Sciences, Inc. (CBS)

Local calling areas are based on the exchange and Network Access Area designation of the location from which the Customer is served and based on which incumbent LECs serve the same area. The Network Access Area assignment is the same assignment that applies to service provided at the same location by the incumbent LEC – Bell South). The following list provides the exchange areas in which CBS intends to serve:

NXX	EXCHANGE NAME	LATA	NPA	TELCO NAME
332	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
344	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
345	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
346	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
348	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
395	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
396	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
397	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
398	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
399	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
922	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
280	MEMPHIS	468	601	BELLSOUTH TELECOMM INC.
774	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
775	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
942	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
946	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
947	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
948	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
781	MEMPHIS	468	601	BELLSOUTH TELECOMM INC.
785	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
786	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
789	MEMPHIS	468	901	BELLSOUTH TELECOMM INC.
275	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
360	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
361	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
365	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
366	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
367	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
399	MEMPHIS	470	615	BELLSOUTH TELECOMM INC.
665	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
646	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
662	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
673	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
221	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
309	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
370	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
371	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
372	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
373	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
376	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.5 Exchange Areas served in Tennessee by Computer Business Sciences, Inc. (CBS) (cont'd)

NXX	EXCHANGE NAME	LATA	NPA	TELCO NAME
377	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
507	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
660	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
661	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
221	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
350	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
315	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
317	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
331	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
332	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
333	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
445	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
781	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
831	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
832	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
833	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
834	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
835	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
837	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
315	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
231	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
231	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
232	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
314	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
316	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
391	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
407	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
457	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
458	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
518	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
574	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
806	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
817	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
821	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
871	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
872	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
874	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
882	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
883	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
884	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
885	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
886	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
889	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
902	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
912	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
929	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
930	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*231	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.5 Exchange Areas served in Tennessee by Computer Business Sciences, Inc. (CBS) (cont'd)

NXX	EXCHANGE NAME	LATA	NPA	TELCO NAME
717	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
731	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
226	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
227	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
228	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
258	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
262	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
650	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
612	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
860	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
865	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
868	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
870	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
555	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
555	NASHVILLE	470	931	BELLSOUTH TELECOMM INC.
555	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
737	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
214	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
253	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
271	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
291	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
295	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
335	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
401	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
402	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
416	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
432	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
524	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
531	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
532	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
733	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
734	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
736	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
741	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
747	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
748	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
749	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
770	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
813	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
862	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
880	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
960	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
978	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
276	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
242	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
244	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
248	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.5 Exchange Areas served in Tennessee by Computer Business Sciences, Inc. (CBS) (cont'd)

NXX	EXCHANGE NAME	LATA	NPA	TELCO NAME
251	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
252	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
254	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
255	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
256	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
259	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
313	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
508	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
664	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
687	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
720	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
726	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
742	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
743	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
744	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
780	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
782	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
923	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
951	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
416	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*555	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*555	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*555	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
201	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
269	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
272	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
279	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
282	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
292	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
297	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
298	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
303	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
304	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
383	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
385	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
386	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
460	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
463	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
702	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
783	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
816	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
918	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
936	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*201	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
222	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
284	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
320	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.

SECTION 3 DESCRIPTION OF BASIC SERVICE AND RATES (cont.)

3.5 Exchange Areas served in Tennessee by Computer Business Sciences, Inc. (CBS) (cont'd)

NXX	EXCHANGE NAME	LATA	NPA	TELCO NAME
321	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
322	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
327	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
329	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
340	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
341	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
342	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
343	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
344	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
421	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
963	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
*222	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
299	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
876	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
352	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
353	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
354	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.
356	NASHVILLE	470	615	BELLSOUTH TELECOMM INC.

SECTION 4 – SERVICE PROVIDER NUMBER PORTABILITY

4.1 Description

Location Routing Number (SPNP - LRN)

SPNP - LRN depends on AIN/IN technology. LRN is a 10-digit number used to uniquely identify a switch that has ported numbers. The LRN for a particular switch must be a native NPA-NXX assigned to the local exchange provider for that switch and serves as a network address. Telecommunications carriers routing telephone calls to an end-user that has ported their telephone number from one Telecommunications Carrier to another must perform a database query to obtain the LRN that corresponds to the dialed telephone number. The N-1 telecommunications provider (the next to the last terminating carrier) is responsible for determining the LRN for the call being terminated. The database query is performed for all calls where the NPA-NXX of the Telecommunications Carrier routes the call to the appropriate Telecommunications Carrier based on the LRN.

SPNP-LRN will be initially deployed in Nashville and Memphis by October 26, 1999, and will continue through a phase in deployment which will complete around March 2000 according to FCC Docket No. 95-116, as published in the Local Exchange Routing Guide (LERG). Subsequent deployment in additional switches beyond initial deployment pursuant to FCC Docket No. 95-116 will be accomplished through receipt of a bona fide request.

4.2 Terms and Conditions

General

Service Provider Number Portability (SPNP) is only available to telecommunications carriers for use in the provision of a telecommunications service as specified and to the extent required by the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) ("The Act") and the rules and regulations of the Federal Communications Commission and the Tennessee Regulatory Authority.

Service Provider Number Portability is a service arrangement provided by the Company to Telecommunication Carriers whereby a customer, who switches subscription to local exchange service from the Company to a Telecommunication Carrier is permitted to retain for their use the existing Company assigned telephone number provided that the customer's service location remains within the same Company rate center.

SECTION 4 – SERVICE PROVIDER NUMBER PORTABILITY (cont'd)

4.2 Terms and Conditions (cont'd)

Rules and Regulations

SPNP service is only available to Telecommunications Carriers. SPNP service and facilities will only be provided where technically feasible, subject to the availability of facilities and pursuant to FCC Docket No. 95, and may only be furnished from properly equipped central offices. SPNP service and facilities are not offered for Mass-Calling NXX Codes, NXX Codes 555, 976, 950, FX service, or Bell South coin telephone service.

General Regulations as found in this Tariff apply to this section unless otherwise specified in this section. The term "customer", which appears in Part 3.1 of the General Regulations is the equivalent of the term "telecommunications carrier" as used in this section.

Telecommunications Carriers will be assessed Local Number Portability (LNP) Query Charges as defined in FCC No. 2, Section 6, as SPNP-LRN becomes available in an area if the Company performs an LNP database query on behalf of the Telecommunications Carrier.

Interim Arrangements (SPNP-Remote and SPNP-Direct) are only available to Telecommunications Carriers in areas where SPNP-Location Routing Number (LRN) is not available. Telecommunications Carriers shall migrate from Interim Arrangements to SPNP-LRN as soon as practicable, but no later than 120 days from the last day which the FCC has mandated SPNP-LRN be available in a particular Metropolitan Statistical Area (MSA). Requests for Interim Arrangements will also not be processed after the last day which the FCC has mandated SPNP-LRN be available in a particular Metropolitan Statistical Area (MSA). The parties shall provide long-term number portability to each other in accordance with rules and regulations prescribed by the FCC and/or the T.R.A.

Responsibilities of the Company

The Company's sole responsibility is to comply with the service requests it receives from the Telecommunications Carrier and to provide SPNP in accordance with its tariff. In the event that the Company becomes aware that a dispute or discrepancy may have occurred, it may insist that the Telecommunications Carrier provide to the Company a signed letter of authorization from the end-user.

The Company is not responsible for the allocation of charges for resold or shared SPNP service or for misdialed calls.

SECTION 4 – SERVICE PROVIDER NUMBER PORTABILITY (cont'd)

4.2 Terms and Conditions (cont'd)

Responsibilities of the Telecommunication Carrier

The Telecommunications Carrier is solely responsible to obtain a signed letter of authorization from the end-user for the handling of the disconnection of the end-user's service with the Company, the provision of service by the Telecommunication Carrier and the provision of SPNP service. Should a dispute or discrepancy arise regarding the authority of a Telecommunications Carrier to act on behalf of the end-user, the Telecommunications Carrier is responsible for providing a signed letter of authorization to the Company. In the event that the Telecommunication Carrier is unable to provide such authorization, the Company may either refuse to disconnect the end-user's service and establish SPNP service as requested by the Telecommunications Carrier or, where the conversion from end-user to SPNP service has already occurred, may choose to restore the end-user's prior service with the Company and terminate SPNP service for that particular end-user. In such event, the Telecommunication Carrier is responsible to compensate the Company for its cancellation costs if the end-user's service had not been disconnected and SPNP service had not yet been established or to pay all applicable restoral costs for terminating the SPNP service and restoring the end-user's prior service with the Company.

The Telecommunication Carrier is responsible for coordinating the provision of service with the Company to assure that its switch is capable of accepting SPNP ported traffic.

The Telecommunication Carrier is solely responsible to provide equipment and facilities that are compatible with the Company's service parameters, interfaces, equipment, and facilities. The Telecommunication Carrier is required to provide sufficient terminating facilities and services at the terminating end of an SPNP call to adequately handle all traffic to that location and is solely responsible to ensure that its facilities, equipment and services do not interfere with or impair any facility, equipment or service of the Company or any of its end-users. In the event that the Company terminates in its sole judgement that Telecommunications Carrier will likely impair or is impairing, or interfering with any equipment, facility or service of the Company or any of its end-users, the Company may either refuse to provide SPNP service or terminate it in accordance with other provisions of the Company's tariff.

The Telecommunication Carrier is responsible fort providing an appropriate intercept announcement service for any telephone numbers subscribed to SPNP service for which it is not presently providing local exchange service or terminating to an end-user.

SECTION 4 – SERVICE PROVIDER NUMBER PORTABILITY (cont'd)

4.2 Terms and Conditions (cont'd)

Responsibilities of the Telecommunication Carrier (cont'd).

The Telecommunication Carrier is responsible for designating to the Company at the time of its initial service request for SPNP service one of the following options for the handling and processing of Calling Card, Collect, Third party, and other operator handled non-sent paid calls from or to SPNP assigned telephone numbers: (1) the Connecting Carrier may request that the Company block all such calls; (2) the Telecommunication Carrier may accept billing from the Company for such calls; or (3) the Telecommunication Carrier may negotiate a separate, detariffed billing and collection agreement with the Company establishing the call handling, processing and billing responsibilities of the parties.

Limitations of Service

The Company is not responsible for adverse effects on any service, facility or equipment from the use of SPNP service.

End-to-end transmission characteristics may vary depending on the distance and routing necessary to complete calls over SPNP facilities and the fact that another carrier is involved in the provisioning of service. Therefore, end-to-end transmission characteristics cannot be specified by the Company for such calls.

The Company is not responsible to the Telecommunication Carrier if necessary changes in protection criteria or in any of the facilities, operation, or procedures of the Company renders any facilities provided by a Telecommunication Carrier obsolete or renders modification of the Telecommunication Carrier's equipment necessary except as otherwise required by the Tennessee Regulatory Authority.

TITLE SHEET

INTEREXCHANGE TENNESSEE TELECOMMUNICATIONS TARIFF

This interexchange tariff contains the descriptions, regulations, and rates applicable to the provision of facilities-based intrastate/interexchange telecommunications services provided by Computer Business Sciences, Inc., with principal offices at 80-02 Kew Gardens Road, Kew Gardens, New York 11415. This tariff applies for services furnished within the state of Tennessee. This tariff is on file with the Tennessee Regulatory Authority, and copies may be inspected, during normal business hours, at the Company's principal place of business.

CHECK SHEET

Sheets 1 through 22 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

SHEET	REVISION
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
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SYMBOLS

The following are the only symbols used for the purposes indicated below:

D - Delete or Discontinue
I - Change Resulting In An Increase to A Customer's Bill
M - Moved From Another Tariff Location
N- New
R - Change Resulting In A Reduction to A Customer's Bill
T - Change In Text or Regulation But No Change In Rate or Charge

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 16 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the PPUC. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the TRA follows in their tariff approval process, the most current sheet number on file with the Authority is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.1.
2.1.1.
2.1.1 .A.
2.1.1 .A.1 .
2.1.1 .A.1 .(a).
2.1.1 .A.1 .(a).I.
2.1.1 .A.1 .(a).I.(i).

D. Check Sheets - When a tariff filing is made with the Authority, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk. There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Authority.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Access Line - An arrangement which connects the customer's location to a Computer Business Sciences, Inc. network switching center.

Authorization Code - A numerical code, one or more of which are available to a customer to enable him/her to access the carrier, and which are used by the carrier both to prevent unauthorized access to its facilities and to identify the customer for billing purposes.

Company or Carrier- Computer Business Sciences, Inc. ("CBS")

Customer- The person, firm, corporation or other entity which orders service and is responsible for payment of charges due and compliance with the Company's tariff regulations.

Day - From 8:00 AM up to but not including 5:00 PM local time Monday through Friday.

Evening - From 5:00 PM up to but not including 11:00 PM local time Sunday through Friday.

Holidays - Computer Business Sciences, Inc.'s recognized holidays are New Year's Day, Martin Luther King, Jr. Day, Presidents Day, Memorial Day, July 4th, Labor Day, Thanksgiving Day, Christmas Day.

Night/Weekend - From 11:00 PM up to but not including 8:00 AM
Sunday through Friday, and 8:00 AM Saturday up to but not including 5:00 PM Sunday.

SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of Computer Business Sciences, Inc.

Computer Business Sciences, Inc. services and facilities are furnished for communications originating at specified points within the state of Tennessee under terms of this Tariff.

Computer Business Sciences, Inc. installs, operates, and maintains the communication services provided here under in accordance with the terms and conditions set forth under this Tariff. It may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the Computer Business Sciences, Inc. network. The customer shall be responsible for all charges due for such service arrangement.

The Company's services and facilities are provided on a monthly basis unless ordered on a longer term basis, and are available twenty-four hours per day, seven days per week.

2.2 Limitations

2.2.1 Service is offered subject to the availability of facilities and the provisions of this tariff.

2.2.2 Computer Business Sciences, Inc. reserves the right to discontinue furnishing service, or limit the use of service necessitated by conditions beyond its control; or when the customer is using service in violation of the law or the provisions of this Tariff.

2.2.3 All facilities provided under this Tariff are directly controlled by Computer Business Sciences, Inc. and the customer may not transfer or assign the use of service or facilities, except with the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.2 Limitations (Cont.)

2.2.4 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

2.2.5 Customers reselling or rebilling service must have a certificate of public convenience and necessity as an interexchange carrier from the Tennessee Regulatory Authority.

2.3 Liabilities of the Company

2.3.1 Computer Business Sciences, Inc.'s liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in the transmission occurring in the course of furnishing service or facilities, and not caused by the negligence of its employees or its agents, in no event shall exceed an amount equivalent to the proportionate charge to the customers for the period during which the aforementioned faults in transmission occur, unless ordered by the Authority; i.e., if the fault lasts for up to 48 hours, customer would not be charged for 1/3rd month of service, up to 72 hours customer would not be charged for 2/3rds of a month of service and 96 hours customer would not be charged for a full month of service.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.3 Liabilities of the Company (cont'd)

2.3.2 Computer Business Sciences, Inc. shall be indemnified and held harmless by the customer against:

2.3.2.1 Claims for libel, slander, or infringement of copyright arising out of the material, data, information, or other content transmitted over the Company's facilities.

2.3.1.2 All other claims arising out of any act or omission of the customer in connection with any service or facility provided by Computer Business Sciences, Inc.

2.4 Interruption of Service

2.4.1 Credit allowance for the interruption of service which is not due to the Company's testing or adjusting, negligence of the customer, or to the failure of channels or equipment provided by the customer, are subject to the general liability provisions set forth in 2.3.1 herein. It shall be obligation of the customer to notify The Company immediately of any interruption in service for which a credit allowance is desired. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission by the customer within his control, or is not in wiring or equipment, if any, furnished by the customer and connected to the Company's facilities.

2.4.2 For purposes of credit computation, every month shall be considered to have 720 hours.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.4 Interruption of Service (cont'd)

2.4.3 No credit shall be allowed for an interruption of a continuous duration of less than two hours.

SECTION 2 - RULES AND REGULATIONS (cont.)

2.5 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.6 Deposits

The Company does not require a deposit from the customer.

2.7 Advance Payments

For customers whom the Company feels an advance payment is necessary, Computer Business Sciences, Inc. reserves the right to collect an amount not to exceed two (2) months' estimated charges as an advance payment for service. This will be applied against the next month's charge; and if necessary a new advance payment will be collected for the next month.

2.8 Taxes

All state and local taxes (i.e., gross receipts tax sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.9 Employee Concessions

Any employee of the Company in good standing for three months or longer may receive any of the Company's services 20% below the tariffed rate as a concession.

SECTION 2 – RULES AND REGULATIONS (cont.)

2.10 Disconnection of Service

The Company (carrier), upon fourteen (14) working days' written notice to customer with a second written notice to customer 7 days before actual disconnection, may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

2.10.1 Non-payment of any sum due to carrier for regulated service for more than thirty (30) days beyond the date of rendition of the bill for such service.

2.10.2 A violation of any regulation governing the service under this tariff.

2.10.3 A violation of any law, rule or regulation of any government authority having jurisdiction over such service.

SECTION 2 – RULES AND REGULATIONS (cont.)

2.11 Billing Procedures

Rendering and Payment. Customer bills are issued monthly. The Customer will receive its bill on or about the same day of each month. Months are presumed to have 30 days. The billing date is dependent on the billing cycle assigned to the Customer. Each bill contains monthly recurring charges billed in advance, and the last date for timely payment. The Company will prorate monthly recurring charges based on a 30 day month.

Bills are due and payable as specified on the bill. Bills may be paid by mail or in person at the business office of the Company or an agency authorized to receive such payment. All charges for service are payable only in United States currency. Payment may be made by cash, check, money order or cashier's check.

Customer payments are considered prompt when received by the Company or its agent by the due date on the bill. The due date is 30 days after the bill is rendered and is designated by the due date on the Customer's bill to timely pay the charges stated. The Company will credit payments within 24 hours of receipt.

Any objections to billed charges should be promptly reported to the Company. Adjustments to Customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate.

SECTION 3 - DESCRIPTION OF SERVICE

3.1 Timing of Calls

The customer's long distance usage charge is based on the actual usage of Computer Business Sciences, Inc.'s network. Usage begins when called party picks up the receiver. When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. When software answer supervision is employed, up to 60 seconds of ringing is allowed before it is billed as usage of the network. A call is terminated when the calling or called party hangs up. There is no charge for an uncompleted call.

3.2 Minimum Call Completion Rate

A customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 90% during peak use periods for all FG D services ("1+" dialing).

3.3 Special Services

For the purpose of this tariff, a Special Service is deemed to be any service requested by the customer for which there is no prescribed rate in this tariff. Special Service charges will be developed on an individual case basis and filed in this tariff.

3.3.1 Special Service Regulations

Special Service charges will be based on the estimated cost of furnishing such services including the cost of operating and maintaining such a service, the cost of equipment and materials used in providing such a service, the cost of installation including engineering, labor supervision, transportation, and the cost of any other specific item associated with the particular Special Service request.

SECTION 3 - DESCRIPTION OF SERVICE (cont.)

3.3.1.1 If at the request of the customer, CBS obtains facilities not normally used to provide service to its customers, the cost incurred will be billed as a Special Service.

3.3.1.2 If at the request of the customer, CBS provides technical assistance not normally required to provide service, the costs involved will be billed as a Special Service.

3.3.1.3 When special signaling, conditioning, equipment or other features are required to make customer-provided equipment compatible with CBS service, the cost of providing these features will be billed as a Special Service.

3.3.1.3 When additional testing is requested in excess of the normal testing required to provide service.

3.3.2 Hearing or Speech Impaired Persons

Rates for certain calls are reduced for a residence or single-line business customer who meet the following requirements:

3.3.2.1 The customer is certified to the Company as having a hearing or speech impairment that prevents telephone voice communication.

3.3.2.2 The customer uses a telecommunications device for the deaf (TDD) or other non-voice equipment for telecommunications.

3.3.2.3 The customer makes written application to the Company for reduced rates.

SECTION 3 - DESCRIPTION OF SERVICE (cont.)

3.3.2 Hearing or Speech Impaired Persons (cont'd)

3.3.2.4 The customer designates to the Company one and only one telephone number associated with that customer's service and telecommunications device.

SECTION 3 - DESCRIPTION OF SERVICE (cont.)

3.4 General Description of CBS's Communication Services

CBS Long Distance Service is an interexchange telecommunications service that enables an end-user to place calls by accessing the CBS network directly. The service is accessed by establishing an account with the Company, having an authorization code issued, and dialing a 7 digit access code. The end-user accesses the network by dialing either (XXX) ___ - ____ or a toll-free number -- (800) ___ - ____. CBS Long Distance Service is available 24 hours a day, 7 days a week.

SECTION 3 - DESCRIPTION OF SERVICE (cont.)

3.5 Directory Assistance

Directory Assistance is available to customers of any of CBS's services. The charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number. Up to two requests may be made on each Directory Assistance call. Directory Assistance charges will not count towards any volume discounts.[1]

	Minimum	Maximum
Per call to Directory Assistance:	$0.15	$0.75

3.6 Calculation of Distance

CBS's rates are not distance sensitive.

[1]Directory Assistance charges will be included with other usage charges when calculating volume discounts and in satisfying minimum usage requirements.

SECTION 4 – RATES

4.1 Rates The per minute rates for CBS Long Distance Service are as follows

Using the (local area code) XXX-XXXX access code:

Minimum	Maximum
$0.05 per minute	$0.09 per minute

Using the (800) XXX-XXXX access code:

Minimum	Maximum
$0.09	$0.18 per minute

The above rates apply to each minute or fraction thereof.

4.2 Special Promotions

The company will, from time to time, offer special promotions to its customers waiving certain charges. These promotions will be approved by the TRA with specific starting and ending dates and under no circumstances run for longer than 90 days in any 12 month period.

4.3 Special Rated For The Handicapped

4.3.2 Directory Assistance

There shall be no charge for up to fifty calls per billing cycle from lines or trunks serving individuals with disabilities. The Company shall charge the prevailing tariff rates for every call in excess of 50 within a billing cycle."

SECTION 4 – RATES (cont'd)

4.3.3 Hearing and Speech Impaired Persons

Intrastate toll message rates for TDD users shall be evening rates for daytime calls and night rates for evening and night calls.

SECTION 4 – RATES (cont.)

4.3.4 Telecommunications Relay Service

For intrastate toll calls received from the relay service, the Company will when billing relay calls discount relay service calls by 50 percent off of the otherwise applicable rate for a voice nonrelay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call shall be discounted 60 percent off of the otherwise applicable rate for a voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

4.4 Late Charges and Return Check Charges

Interest charges of 1.5% per month will be assessed on all unpaid balances not in dispute more than thirty (30) days old.

A return check charge of $25.00 will be assessed for checks returned for insufficient funds if the face value does not exceed $50.00; $30.00 if the face value does exceed $50.00 but does not exceed $300.00; $40.00 of the face value exceeds $300.00 or 5% of the value of the check, whichever is greater. The company may waive the bad check charge under appropriate circumstances.

SECTION 4 – RATES (cont.)

4.5 ACTUAL RATES

Per call to Directory Assistance:	$0.60 per call
Per minute rates (offnet)	
Using the (local area code) XXX-XXX X Access code	$0.05 per min.
Using the (800) XXX-XXXX access code:	$0.09 per min.
Flat rate long distance (On-net only)	$15.00 monthly

TITLE SHEET

CARRIER TO CARRIER TENESSEE TELECOMMUNICATIONS TARIFF

This carrier to carrier tariff applies to the provision of carrier to carrier telecommunications services provided by Computer Business Sciences, Inc., with principal offices at 80-02 Kew Gardens Road, Suite 5000, Kew Gardens, New York 11415, within the following areas of the State of Kentucky: Memphis and Nashville, in the same exchange areas as those of Bell South.

A. Resale and Sharing

Resale and Sharing of Computer Business Sciences, Inc.'s services is available only to carriers which are certified by the Tennessee Regulatory Authority to provide intrastate Local Exchange Services.

There are no prohibitions or limitations on the resale of services. Any service provided under this tariff may be resold to or shared with other persons at the option of Customer, subject to compliance with any applicable laws of the Tennessee Regulatory Authority regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

Rates for Resale and Sharing Service are the same as the tariffed Retail Rates for Computer Business Sciences, Inc., found in its Tariff No. 1.

B. Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the Customer. Without affecting the Customer's ultimate responsibility for payments of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

EXHIBIT JJG-6

PROJECT DESCRIPTION

CONFIDENTIAL AND PROPRIETARY INFORMATION

Computer Business Science's ("CBS") entry strategy is to enter the market via its voice over IP technology and take advantage of its unregulated untariffed ability to sell domestic and international long distance at discounts to carriers, enterprise customers, small and mid size business as well as residential customers. CBS will utilize its strategic relationship with GE Capital to capture and market to the enterprise customer, which will provide the scale necessary to capture the residential market. CBS's primary strategy is to deploy xDSL services and take advantage of the demand for high speed internet access while providing a complete bundled communications package to residential and small businesses. To its knowledge, CBS will be the first U.S. carrier to deploy xDSL as a complete bundled product. All other current providers of xDSL make the customer order a second line to the home. CBS will be the first to provide local dialtone, data, and video seamlessly over the same copper span that currently delivers to the customer dial-tone only.

CBS believes that it is in the position to offer customized service bundles by capturing the customers' network entry point (copper loop) and delivering local broadband with quality of service guarantees. Further, CBS can do this at a significant savings compared with current offerings where services are individually purchased from cable companies and telephone companies. CBS, by financing on a customer basis, can build its asset base while not incurring debt. This will allow the Company greater flexibility to adapt to market pricing and expand its network. As rolling out xDSL is extremely capital intensive (Approx: $1,200 per customer) CBS intends to package and sell xDSL service in 1,000 customer multiples to a mezzanine funding source such as GE Capital. CBS will pay for the initial deployment of 1,000 units of xDSL service equipment and once subscribed to would seek funding for those units to replenish the cash shortage due to the purchase. CBS will then either seek additional private placement monies or an IPO to repay the mezzanine funding. The estimated cost to build out CBS' network is $15,000 per central office.

CBS will file with the Commission for its approval an Interconnection Agreement with BELL SOUTH. This agreement sets forth the terms, conditions and pricing under which the RBOC and CBS will offer and provide to each other network Interconnection, access to Network Elements, ancillary services, and wholesale Telecommunications Services available for resale within each LATA in which they both operate within State of Tennessee. As such, this Agreement is an integrated package that reflects a balancing of interests critical to all parties involved.

For the provision of interexchange telecommunications service, CBS will bundle its ATM network with DS-3 facilities from an authorized facilities-based carrier. Once customers transmit from their homes and transmissions arrive at the BELL SOUTH central office, they will be connected onto our ATM network. Voice transmissions will be routed directly to a CBS switch and to tandems which are connected with BELL SOUTH. Calls outside the region will be packetized and transmitted over our ATM network; they will then be depacketized at the terminating region and sent out over tandems that are connected with the incumbent local exchange carrier in that region.

CBS is developing the most advanced multi-media network available to-date with the world's highest distribution of broad bandwidth through-put. CBS plans to deploy this service in all domestic cities over a half million in population, beginning with New York, California, and Florida and *has received competitive local exchange service authority* (CLEC) for those states, and is seeking CLEC authority for many others.

CBS's local traffic initially will be routed in significant part over the network of its underlying local RBOC – BELL SOUTH, with which we plan to co-locate. Consequently, the quality of service that CBS's local exchange customers receive will be equivalent to that provided by the incumbent LEC. CBS will employ a combination of its own and third party equipment, services, and facilities, in providing the proposed facilities-based services.

Due to the 1996 Telecommunications Act, CBS is in a favorable position to deliver bundled communications services to its customers by purchasing the local copper loop from the RBOC and enhancing it by adding high-speed Internet access, long distance, local phone services and network intelligence. By bundling these services, CBS is able to achieve greater economy of scale, reducing churn rate and developing a loyal customer base. CBS intends to offer a flat rate service for these customers, allowing them to pay one low fee for all of their communications needs.

In its final phase of development, this network will support "carrier class" voice over Internet protocol applications, including:

Local Dial Tone
Traditional long distance
High Speed Internet Access
Residential broadband
Virtual private network
Movies-on-demand/Pay TV
Traditional Cable Television
Home Shopping
Banking
Networking
Telemarketing
Telemedicine
Distance Learning Capabilities

Utilizing its proprietary routing and switching algorithms, CBS can offer a quality of service guarantee from any end point on the network. Phase I of the implementation plan is scheduled for the second half of 1999.

CBS, through a technology partnership with Copper Mountain, will be able to deliver up to 6mbps to the vast majority of telephone twisted pairs currently in service. At the same time we don't impair voice frequency services and can co-exist on the same pair with switched voice service.

Voice calls will be cross-connected to our CISCO voice IP gateways. The voice IP gateways will packetize the data if it's destined for another Central Office. Where we have a gateway in the same area, the Gateway will place the call out onto the network through our connection with the PSTN. This will enable us to be both the facilities based CLEC as well as the NSP. Our multiplexor has an ATM network backbone interface.

The DSL multiplexor operates both in central office locations and in remote line card configurations. Our configuration will allow use of the same twisted pair used for POTS to deliver our high speed data product giving more than 75% of telephone customers access to high speed broadband services. With the remote line card shelf configuration we can serve customers beyond 18,000 feet 5.5 km. our customers may install NIC cards in PCs as customer premise equipment (CPE). Alternatively, there are external modems available for 10 base T Ethernet connections, and 25 megabit per second ATM connections to PCs. The external modems provide flexibility for laptop and non-pc applications.

Our solution meets Bellcore's 2842-Core Document and Nebs compliance. End user line interface RADSL conforms to the capabilities specified in the E1- T1 standard, operates over non loaded twisted pairs of any gauge combination of 22, 24, and 26 gauge wire that satisfy North American revised

resistance design rules (loop length 18,000 feet 5.5km, loop resistance 1300 ohms @20 *C and total bridge tap 6,000 feet 1.9 km. Designed to work even with ISDN or HDSL circuits in the same binder group.

Our ADSL line card will deliver data rates greater than 2mbps overall on non-loaded loops, even with large numbers of HDSL or ISDN circuits operating within the same binder group. More than 50% of North American loops will support data rates greater than 6 MBPS. Telephony: International Data Corp. predicts that around 60 million PC users will be placing voice calls over the Internet by 1999. Offering Internet Telephony can help carriers that face unfavorable interconnect terms and can give them leverage on international settlement deals.

CBS will deploy Rate adaptive ADSL because it will save time and cost associated with having to qualify the local loop plant to see that the copper is capable of delivering the service promised. RADSL functions like a dial-up modem; it senses the bandwidth capabilities of the copper loop and adjusts upward or downward accordingly. Unlike ISDN which either works or doesn't when the copper plant is impaired, RADSL will function but not at a guaranteed rate. (We will be using only 400K on average of the 6meg capability so we avoid having to qualify all but those customers who subscribe to a higher quality of service. In those cases, we will qualify the line but the customer will pay for this increase in cost through a higher install fee and higher monthly costs.) RADSL will be our primary entry offering whereas SDSL and qualified RADSL will be for small businesses and enterprise customers.

All arrangements that may be implemented to effectuate the local services requested in this Application will conform to existing and evolving industry standards, and will not, in any way, adversely affect the networks of the incumbent exchange carrier.

EXHIBIT JJG-7

SMALL AND MINORITY OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN FOR COMPUTER BUSINESS SCIENCES, INC.

STATEMENT OF PURPOSE

As a responsible foreign corporation certified to do business in the State of Tennessee, COMPUTER BUSINESS SCIENCES, INC. ("CBS") will seek, to the maximum extent feasible, and with due regard to price and quality factors, to purchase goods and services from small and minority owned telecommunications businesses and to provide, to the maximum extent feasible, technical assistance to such businesses.

CBS's goal shall be the full and equal participation of such businesses as defined by the Tennessee Regulatory Authority. CBS shall strive to achieve the purchase of a percentage of CBS's total annual need for Tennessee operations for goods and services from small and minority owned telecommunications businesses as defined by the Tennessee Regulatory Authority, which is equal to the percentage of small and minority owned telecommunications suppliers doing business in CBS's service territory, providing such goods and services are offered on a market competitive basis.

This Plan is a statement of objectives and is not intended to create any legal obligation of COMPUTER BUSINESS SCIENCES, INC.

PARTICIPATION PLAN

CBS will advise all personnel of the existence of this Plan and of CBS's goals established in this Plan.

CBS will designate an employee to have the responsibility of developing policies and procedures to allow for the success of CBS's efforts to purchase goods and services from small and minority owned telecommunications businesses. The plan administrator will be Deborah Arnott, Regulatory Administrator, Computer Business Sciences, Inc., 80-02 Kew Gardens Road, Suite 5000, Kew Gardens, NY 11415.

CBS will establish targets to strive for in connection with reaching the annual goal of purchasing the established percentage of goods and services from small and minority owned telecommunications businesses.

CBS will adopt a system for identification of small and minority owned businesses Specifically, CBS will prepare a form designated to determine the qualifications of any business with respect to its status as a small or minority owned telecommunications business. CBS will notify, to the extent practicable, such businesses of the existence of this Plan. CBS will invite bids, issue requests for proposals, or otherwise solicit offers and bids from such businesses.

CBS will exercise diligence and sensitivity to ensure that opportunities to small and minority owned telecommunications businesses for doing business with CBS are equivalent to those provided to those entities which are not small or minority owned.

VERIFICATION

State of New York
County of Queens

I am authorized to represent Computer Business Sciences, Inc. and to make this verification on its behalf. The statements in the foregoing application and exhibits are true and correct to the best of my knowledge, information and belief.

BY: Bruce A Hall
NAME: Bruce A. Hall
TITLE: Vice President/Chief Operations Officer
DATE: 4/12/99

Sworn to and subscribed before me, the undersigned authority in and for the jurisdiction aforesaid, the within named Bruce A. Hall, this 12 day of May, 1999.

Michael O. Robinson

My Commission expires:

MICHAEL A. ROBINSON
NOTARY PUBLIC, State of N.Y.
No. 4747811, Nassau County
Term Expires March 30, 2001

CERTIFICATE OF SERVICE,

I hereby certify that I have this day served a true and exact copy of the within and foregoing Application on behalf of Computer Business Sciences, Inc., via United States mail, first class postage prepaid and properly addressed to the following:

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Deborah S. Arnott, Regulatory Administrator
Computer Business Sciences, Inc.

This 16th day of June 1999.