

ARMSTRONG TEASDALE LLP

Attorneys at Law

Sherry L. Doctorian

3405 West Truman Boulevard, Suite 210
Jefferson City, Missouri 65109-5713
Phone: (573) 636-8394
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www.armstrongteasdale.com

FILED
RECEIVED

JUL 16 1999

July 16, 1999

Mr. Dale Hardy Roberts, Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Records DEPOSIT ONLY
Public Service TO THE CREDIT OF
BOB HOLDEN, TREASURER

TA-2000-32

JUL 16 1999

STATE OF MISSOURI
DEPARTMENT OF REVENUE
PUBLIC SERVICE COMMISSION

Re: *Application of Computer Business Sciences, Inc.*

Dear Mr. Roberts:

Enclosed please find a copy of the cover letter which was submitted with the application in the above-referenced case. Please note the highlighted statement in the second paragraph regarding service to the Public Counsel. In the past, it has been my understanding that a statement of this nature in the cover letter has been sufficient to comply with 4 CSR 240-2.080(4). However, I have recently become aware that the Commission may now require a formal Certificate of Service. Therefore, I am enclosing an original and fourteen copies of a separate Certificate of Service indicating compliance with the above-referenced CSR.

I thank you in advance for your cooperation. I apologize for any inconvenience this may have caused to the Commission.

Sincerely,

ARMSTRONG TEASDALE LLP

Sherry L. Doctorian by T.G.B.

Sherry L. Doctorian

SLD:nh
Enclosure

cc: Office of the Public Counsel
General Counsel, Missouri Public Service Commission

0000059

FILED

JUL 16 1999

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Computer)
Business Sciences, Inc., for an a certificate of)
service authority to provide facilities-based)
Basic Local Telecommunications and)
Interexchange Service in the State of Missouri)
and to classify said services and the company)
as competitive.)

Case No. TA-2000-32

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the Application of Computer Business Sciences, Inc., for an a certificate of service authority to provide facilities-based Basic Local Telecommunications and Interexchange Service in the State of Missouri and to classify said services and the company as competitive and exhibits were served, via hand delivered, on the 15th day of July, 1999, to the Office of the Public Counsel.

ARMSTRONG TEASDALE LLP

Sherry L. Doctorian by i.g.g.

Sherry L. Doctorian MO #34636
3405 West Truman Blvd., Suite 210
Jefferson City, MO 65102-2046
(573) 636-8394
(573) 636-8457 (Facsimile)

Attorneys for Computer Business Sciences, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing document this 16th day of July, 1999, via hand delivery, to the Office of the Public Counsel and to the General Counsel of the Missouri Public Service Commission.

Sherry L. Doctorian by i.g.g.
Sherry L. Doctorian

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. 1979.

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



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

AUTHENTICATION: 9534100

DATE: 01-21-79

2795071 8300
991026321

2

Exhibit 1

**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

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION - CERTIFICATE OF AUTHORITY

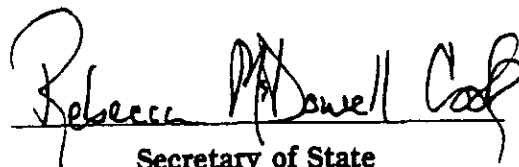
WHEREAS,
COMPUTER BUSINESS SCIENCES, INC.

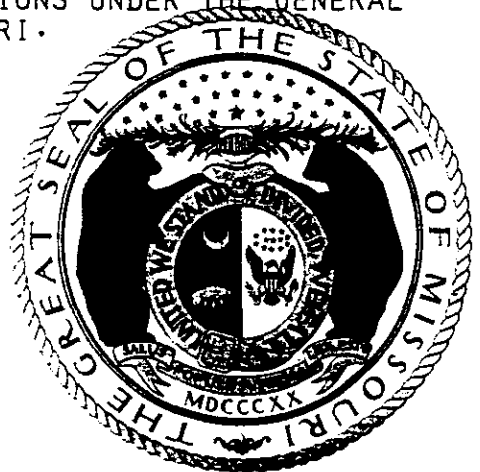
USING IN MISSOURI THE NAME
COMPUTER BUSINESS SCIENCES, INC.

HAS COMPLIED WITH THE GENERAL AND BUSINESS CORPORATION LAW WHICH GOVERNS FOREIGN CORPORATIONS; BY FILING IN THE OFFICE OF THE SECRETARY OF STATE OF MISSOURI AUTHENTICATED EVIDENCE OF ITS INCORPORATION AND GOOD STANDING UNDER THE LAWS OF THE STATE OF DELAWARE.

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, SECRETARY OF STATE OF THE STATE OF MISSOURI, DO HEREBY CERTIFY THAT SAID CORPORATION IS FROM THIS DATE DULY AUTHORIZED TO TRANSACT BUSINESS IN THIS STATE, AND IS ENTITLED TO ALL RIGHTS AND PRIVILEGES GRANTED TO FOREIGN CORPORATIONS UNDER THE GENERAL AND BUSINESS CORPORATION LAW OF MISSOURI.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 17TH DAY OF FEBRUARY, 1999.


Secretary of State



\$155.00

EXHIBIT 2
MANAGEMENT BACKGROUND AND EXPERIENCE

The management of CBS is built around expertise in managing and building networks. They have expertise in regulatory, financing, marketing, and technical deployment of voice and data networks.

Team Members

Doron Cohen

Mr. Cohen is the President and Chief Executive Officer of Computer Business Sciences, Inc. and has served as the President and Chief Executive Officer of its parent company, Fidelity Holdings, Inc., since its incorporation in November 1995. From 1991 to 1995, Mr. Cohen served as President and Chief Executive Officer of Holtzman Enterprises.

Kimberly Peacock

Ms. Peacock, in her current capacity as Chief Technology Officer of Fidelity Holdings and President of the telephony subsidiary of Fidelity Holdings, Inc., IG2, Inc., is the chief architect of the Network and associated platforms. Ms. Peacock has been involved in technical planning for over 15 years and brings an incredible wealth of knowledge to CBS. She has served as a consultant for many companies on the Internet and in Telecommunications, including GE Comstor, GE Ameridata, BrookeHill Equities, Kornreich & Kornreich, among others.

Bruce A. Hall

Mr. Hall joined the company as Vice President of Operations in December 1997. Prior to this, Mr. Hall spent almost 30 years in the Telecommunications Industry with Bell Atlantic. He served in many capacities including Vice President of sales with NYNEX Business Information Systems and most recently as Director of Operations for Queens.

Richard L. Feinstein

Mr. Feinstein has served the Company's Chief Financial Officer since December 1997. In January of 1998 he was promoted to Senior Vice President-Finance and Chief Financial Officer of Fidelity Holdings. 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.

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.

The strength of CBS's management team stems from the combined expertise in both management and technical areas. This will prove to be a competitive advantage as the Company matures. In addition, the leadership and alignment characteristics of CBS's management team have resulted in the establishment of broad and flexible goals designed to meet the ever-changing demands of the quickly moving market place requiring our services.

CBS plans on hiring additional personnel within one month after the initial ATM Network deployment. CBS a sales staff of three to four sales people who will be added to manage the relationships with Network Service Providers.

Additionally, our management advisors provide tremendous support for management decisions and creativity.

Technical Directors

Dale Harris, PhD

Executive Director, Center for Telecommunications Consulting Professor of Electrical Engineering -
Contact: Telephone: 650-725-0433, Fax: 650-725-7126 E-mail: harris@isl.stanford.edu

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 Department 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"; Department 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.

Current Students:

Gwon, Y.J., "High-Speed Networks and Server System"

Jensen, J., "Adaptive Learning System"

David L. Tennenhouse, PhD

David 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.

David 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 area 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.

dlt@tms.lcs.mit.edu

Fouad Tobagi, PhD

Professor of Electrical Engineering and, by courtesy, Computer Science
High-Speed and Multimedia Networking and Communications

Contact: Telephone: 650-723-1708, Fax: 650-725-6221

E-mail: tobagi@stanford.edu

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.

Current Students:

Chan, G. "Scalable Video Services"

Fraleigh, C. "Congestion Control in Datagram Networks"

Karam, M. "Priority Functions in Switched Networks"

Markopoulou, A. "Reliable Multicast Protocols and Performance"

Noureddine, W. "Quality of Service Architecture and Protocols"

EXHIBIT 3
PROOF OF FINANCIAL ABILITY

Computer Business Sciences, Inc. ("CBS") 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. Fidelity's 10K for 1998 is also attached hereto.

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.

Fidelity Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

| | Years ended December 31, | |
|--|--------------------------|-------------------|
| | <u>1998</u> | <u>1997</u> |
| Revenues | | |
| Sales | \$ 98,578,970 | \$ 953,033 |
| Cost of sales | <u>84,121,863</u> | <u>—</u> |
| Gross profit | 14,457,107 | 953,033 |
| Operating expenses | 11,681,617 | 1,215,289 |
| Interest expense | <u>754,189</u> | <u>121,005</u> |
| Operating income (loss) from continuing operations | 2,021,301 | (383,261) |
| Income tax expense | <u>514,000</u> | <u>—</u> |
| Income (loss) from continuing operations | 1,507,301 | (383,261) |
| Income (loss) from discontinued operations | <u>(979,161)</u> | <u>752,400</u> |
| Net income | <u>\$ 528,140</u> | <u>\$ 369,139</u> |
| Per common share | | |
| Operating income (loss) from continuing operations - before taxes | | |
| Basic | \$ 0.28 | \$ (0.06) |
| Diluted | \$ 0.21 | \$ (0.05) |
| Income (loss) from continuing operations | | |
| Basic | \$ 0.20 | \$ (0.06) |
| Diluted | \$ 0.15 | \$ (0.05) |
| Income (loss) from discontinued operations | | |
| Basic | \$ (0.13) | \$ 0.12 |
| Diluted | \$ (0.10) | \$ 0.10 |
| Net income | | |
| Basic | \$ 0.07 | \$ 0.06 |
| Diluted | \$ 0.05 | \$ 0.05 |
| Weighted average number of shares used in computation | | |
| Basic | 7,336,794 | 6,454,350 |
| Diluted | 9,636,794 | 7,550,546 |

10QSB - Quarterly Report - March 31, 1999

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)

☒ 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 ☒ 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 ☒ 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 |

</TABLE>

<PAGE>

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

<TABLE>
<CAPTION>

| | Preferred Stock | | Common Stock | | Additional Paid in Capital | Retained Earnings (Deficit) | Currency Translation Adjustment |
|---|-----------------|-----------|--------------|-----------|----------------------------------|-----------------------------------|---------------------------------------|
| | Shares | Amount | Shares | Amount | | | |
| | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| 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

<PAGE>

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

<PAGE>

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.

<PAGE>

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

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<LEGEND>

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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JAN-01-1999

MAR-31-1999

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(1,228,152)

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11,500

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(728,492)

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.01

.01

10KSB-Annual Report for 1998

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

☒ 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 (I.R.S. Employer
Incorporation or Organization) 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: \$98,578,9

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 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 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 | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998</u> |
| (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 service 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, 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:

| <u>Manufacturer</u> | <u>Percentage of New Vehicle Sales</u> |
|--------------------------------|--|
| 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 cash (\$300,000) and stock (\$500,000), Compass Lincoln Mercury and Compass Dodge ("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 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 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 common stock. Additionally, in satisfaction of certain adjustments to their employment agreements and 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 after 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 the 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 country. 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 specified 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 calls 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

international calls 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 Officer, 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 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 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

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 addition 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 1, 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 Polymeric 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 it should not issue the unlegended share certificate 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. The 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:

| <u>Quarter Ended</u> | <u>High Bid</u> | <u>Low Bid</u> |
|----------------------|-----------------|----------------|
| 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 Mont 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 \$(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 plastic 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 data 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 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:

| <u>Name</u> | <u>Age</u> | <u>Position, Term In Office</u> |
|----------------------|------------|---|
| 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 Pinciario. Mr. Pinciario, 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. Pinciario has served as the Chief Executive Officer of ThermoSpas, Inc., a manufacturer and distributor of spas, since its 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:

| Other Name and Principal Position | Year | <u>Annual Compensation</u> | | | All Compensation(\$) |
|---|------|----------------------------|-----------|----------------|-------------------------|
| | | Salary(\$) | Bonus(\$) | (\$) Annual | |
| Doron Cohen(1) President and Treasurer | 1998 | 246,500 | 0 | 0 | 0 |
| | 1997 | 206,500 | 0 | 0 | 0 |
| Bruce Bendell(2) Chairman and Chief Executive Officer | 1998 | 248,530 | 127,437 | 0 | 0 |
| | 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) Director of Research and Development | 1998 | 150,000 | 0 | 23,000 | 0 |
| | 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. Bendell 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 of 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 its securities:

| Name and Address(9) | Common Number | Stock Percent | 1996 Major Series of Convertible Preferred Stock(2) | | 1997 Major Series of Convertible Preferred Stock(3) | |
|---|------------------|------------------|---|---------|---|---------|
| | | | Number | Percent | 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 affect 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 disallows as to a particular course of action, Major Auto and 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, un compounded. 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

| <u>Exhibit Number</u> | <u>Description</u> | <u>Page</u> |
|---------------------------|--|-------------|
| 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 Polymeric 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 Polymeric, 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 K. [REDACTED] 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 Pinciario, 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 Pinciario, 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, 1996, 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.

* 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:

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

10QSB – Quarterly Report for the period ended
September 30, 1998

CONFORMED SUBMISSION TYPE: 10QSB
PUBLIC DOCUMENT COUNT: 3
CONFORMED PERIOD OF REPORT: 19980930
FILED AS OF DATE: 19981113

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: 98749355

BUSINESS ADDRESS:

STREET 1: 30-02 KEW GARDENS RD SUITE 5000
CITY: KEW GARDENS
STATE: NY
ZIP: 11415
BUSINESS PHONE: 7185206300

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

(Mark One)

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

For the quarterly period ended September 30, 1998 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)

(713) 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 ☒ 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 ☒ No ☐

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 November 3, 1998 was 7,575,600.

Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

FIDELITY HOLDINGS, INC AND SUBSIDIARIES CONSOLIDATED FINANCIAL
STATEMENTS September 30, 1998 (UNAUDITED)

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

| | SEPT. 30, 1998 UNAUDITED ----- | DECEMBER 31, 1997 AUDITED ----- |
|--|---|--|
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,086,819 | \$ 217,191 |
| Net Investment in direct financing leases, current | 1,859,771 | 1,644,575 |
| Notes receivable - officer shareholder | 150,500 | 148,400 |
| Accounts receivable | 5,667,757 | 1,650,919 |
| Inventories | 12,603,254 | 164,661 |
| Due from related parties | 1,058,772 | -- |
| Other current assets | 1,941,875 | 375,172 |
| | ----- | ----- |
| Total current assets | 24,368,748 | 4,200,918 |
| Net investment in direct financing leases, net of current portion | 1,020,673 | 687,106 |
| Property and equipment, net | 5,156,377 | 1,236,513 |
| Goodwill | 5,087,440 | 2,738,911 |
| Other intangible assets - patents, customer lists, favorable lease and franchise value | 6,349,151 | 428,571 |
| Other assets | 965,357 | 109,324 |
| | ----- | ----- |
| Total assets | \$42,947,746 | \$ 9,401,343 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Notes payable | \$13,260,611 | \$ 150,000 |
| Accounts payable and accrued expenses | 5,499,940 | 939,307 |
| Current maturities of long-term debt | 398,777 | 575,188 |
| Customer deposits | 333,892 | -- |
| Deferred revenue | 24,396 | 72,670 |
| Due to affiliates | -- | 143,926 |
| | ----- | ----- |
| Total current liabilities | 17,715,616 | 1,780,988 |
| Long-term debt, less current maturities | 3,780,511 | 427,397 |
| Income taxes deferred | 1,011,000 | 583,000 |
| Other | 160,372 | 65,233 |
| | ----- | ----- |
| Total liabilities | 27,668,099 | 2,876,608 |
| Commitments | | |
| Stockholders' equity | | |
| Preferred stock, .01 par value: | | |
| 2,000,000 shares authorized, 250,000 shares issued and outstanding in 1998 and 1997 | 2,500 | 2,500 |
| Preferred stock, .01 par value: | | |
| 1997 Major, 900,000 shares issued and outstanding in 1998 none in 1997 | 9,000 | -- |
| Common stock, .01 par value | | |
| 50,000,000 shares authorized, 7,574,600 shares issued and outstanding in 1998 and 6,395,700 in 1997 | 75,746 | 68,957 |
| Additional paid in capital | 13,242,951 | 5,414,293 |
| Cumulative translation adjustment | 389 | 297 |
| Retained earnings | 1,949,061 | 1,038,688 |
| | ----- | ----- |
| Total stockholders' equity | 15,279,647 | 6,524,735 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$42,947,746 | \$ 9,401,343 |
| | ===== | ===== |

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | NINE MONTHS ENDED SEPT. 30, | | | |
|--|-----------------------------|--------------|------------|------------|
| THREE MONTHS ENDED SEPT. 30, | 1998 | 1997 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Revenues: | | | | |
| Computer products | \$ 887,031 | \$ 2,752,256 | \$ 312,796 | \$ 764,228 |
| Automobile dealerships | 62,683,363 | -- | 36,575,156 | -- |
| Leasing income | 743,820 | 776,671 | 364,788 | 297,043 |
| Total revenues | 64,314,214 | 3,528,927 | 37,253,742 | 1,061,271 |
| Operating expenses: | | | | |
| Cost of products sold | | | | |
| Computer products | 469,727 | 622,398 | 165,347 | 193,619 |
| Automobile dealerships | 54,323,563 | -- | 31,296,696 | -- |
| Selling, general and administrative expense | | | | |
| Computer products | 987,194 | 1,276,557 | 688,247 | 509,425 |
| Automobile dealerships | 5,637,325 | -- | 3,829,115 | -- |
| Leasing | 419,374 | 529,653 | 32,245 | 164,077 |
| Amortization of intangible assets | 484,914 | 134,366 | 239,339 | 79,132 |
| | 61,322,397 | 2,661,974 | 16,250,389 | 747,253 |
| Operating income | 1,991,817 | 866,953 | 1,003,353 | 314,018 |
| Other income (expense): | | | | |
| Interest expense | (457,144) | 103,805 | (317,892) | 131,781 |
| Interest income | 1,700 | 10,322 | 300 | 450 |
| Income on joint venture | -- | 53,668 | -- | 1,613 |
| Income before provision for income taxes | 1,536,373 | 974,746 | 685,761 | 447,862 |
| Provision for income taxes | 428,500 | 167,000 | 233,000 | 24,000 |
| Net income | \$ 910,273 | \$ 807,746 | \$ 452,761 | \$ 423,862 |
| Earnings per share: | | | | |
| Basic | \$ 0.13 | \$ 0.09 | \$ 0.16 | \$ 0.11 |
| Diluted | 0.10 | 0.08 | 0.05 | 0.01 |
| Shares used in computing earnings per share: | | | | |
| Basic | 7,149,032 | 6,351,700 | 7,353,611 | 6,351,700 |
| Diluted | 9,449,092 | 6,351,700 | 9,653,611 | 6,351,700 |

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

| | 1997 MAJOR Preferred Stock | | 1996 MAJOR Preferred Stock | | Common Stock | | Additional Paid in Capital |
|--|-------------------------------|----------|-------------------------------|----------|--------------|-----------|----------------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance | | | | | | | |
| December 31, 1996 | -- | -- | 250,000 | \$ 2,500 | 6,279,200 | \$ 62,792 | \$ 4,509,108 |
| Issuance of Common Stock pursuant to exercise of warrants | -- | -- | -- | -- | 523,300 | 5,230 | 648,320 |
| Effect of stock compensation charge | -- | -- | -- | -- | 93,500 | 935 | 286,465 |
| Net income | -- | -- | -- | -- | -- | -- | -- |
| Translation adjustment | -- | -- | -- | -- | -- | -- | -- |
| Balance | | | | | | | |
| December 31, 1997 | -- | -- | 250,000 | 2,500 | 6,895,700 | 68,957 | \$ 5,424,223 |
| Net income | -- | -- | -- | -- | -- | -- | -- |
| Translation adjustment | -- | -- | -- | -- | -- | -- | -- |
| Issuance of 1997 Preferred stock for the acquisition of Major Automotive Group | 900,000 | 9,000 | -- | -- | -- | -- | 8,991,000 |
| Issuance of Common Stock for compensation and security deposit | -- | -- | -- | -- | 673,900 | 6,739 | 1,507,438 |
| Balance | | | | | | | |
| September 30, 1998 | 900,000 | \$ 9,000 | 250,000 | \$ 2,500 | 7,574,600 | \$ 75,746 | \$ 13,242,951 |

</TABLE>

| | Retained Earnings | Currency Translation Adjustment | Total Stockholders' Equity |
|--|----------------------|---------------------------------------|----------------------------------|
| Balance | | | |
| December 31, 1996 | \$ 569,549 | \$ 254 | \$ 5,244,213 |
| Issuance of Common Stock pursuant to exercise of warrants | -- | -- | 653,750 |
| Effect of stock compensation charge | -- | -- | 257,400 |
| Net income | 369,139 | -- | 369,139 |
| Translation adjustment | -- | 33 | 33 |
| Balance | | | |
| December 31, 1997 | 1,038,688 | 297 | 6,524,735 |
| Net income | 910,373 | -- | 910,373 |
| Translation adjustment | -- | 92 | 92 |
| Issuance of 1997 Preferred stock for the acquisition of Major Automotive Group | -- | -- | 6,000,000 |

Issuance of Common Stock

for compensation and security
deposit

1,344,447

Balance

September 30, 1998

\$ 1,949,061 \$ 389

\$15,279,647

FIDELITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

| | NINE MONTHS ENDED SEPTEMBER 30, | | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|--------------|-------------------------------------|--------------|
| | 1998 | 1997 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | | |
| Net income | \$ 310,373 | \$ 359,038 | \$ 448,061 | \$ 50,300 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | |
| Non cash charges | 126,307 | 83,502 | 126,307 | 41,502 |
| Amortization of intangible assets | 484,914 | 234,366 | 238,539 | 119,364 |
| Depreciation | 376,129 | 384,722 | 130,322 | (35,000) |
| Deferred income taxes | 429,000 | (149,000) | 229,000 | 78,132 |
| (Increase) decrease in assets: | | | | |
| Net investment in direct financing leases | (548,753) | 215,574 | (326,541) | 31,603 |
| Notes receivable | (2,158) | 2,659 | -- | -- |
| Accounts receivable | 1,335,270 | (1,138,502) | 4,959,350 | (512,139) |
| Inventories | 5,315,399 | 991,509 | 561,201 | 49,338 |
| Other assets | (690,155) | (73,641) | (561,155) | (34,375) |
| Increase (decrease) in liabilities: | | | | |
| Notes, accounts payable and accrued expenses | (3,751,462) | (159,668) | (5,074,374) | (197,012) |
| Customer deposits | (386,592) | -- | (366,751) | -- |
| Deferred revenue | (48,174) | (7,515) | (19,150) | (6,707) |
| Due to affiliates | (143,925) | (1,277,704) | -- | (18,798) |
| Net cash provided (used) by operating activities | (394,239) | 339,560 | 253,279 | (32,592) |
| Cash flows from investing activities: | | | | |
| (Increase) decrease in property and equipment | 228,132 | 463,544 | 186,597 | 51,981 |
| Acquisition of Major Auto Group net of cash acquired | (6,338,301) | -- | -- | -- |
| Net cash used in investing activities | (6,110,169) | 463,544 | 186,597 | 51,981 |
| Cash flows from financing activities: | | | | |
| Proceeds (payments) from long-term debt-net | 3,374,716 | 335,113 | 469,556 | (51,341) |
| Proceeds from issuance of common stock for exercise of warrants | -- | 650,750 | -- | -- |
| Net cash provided by financing activities | 3,374,716 | 417,532 | 469,556 | 51,341 |
| Net increase (decrease) in cash and cash equivalents | 369,236 | 687,572 | 802,471 | 435,314 |
| Cash and cash equivalents, beginning of period | 217,191 | 574,486 | 1,339,393 | 573,723 |
| Cash and cash equivalents, end of period | \$ 586,427 | \$ 1,262,058 | \$ 2,141,864 | \$ 1,009,037 |

FIDELITY HOLDINGS INC, AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

September 30, 1998

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 footnotes 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, 1997 financial statements and related notes included in the Company's Annual Report on Form 10-KSB. The results of operations for the nine months are not necessarily indicative of the operating results for the full year.

2. Major Auto Group

On May 14, 1998, the Company acquired the Major Automotive Group, comprised of five franchise automobile dealers. The acquisition which was accounted for as a purchase pursuant to Accounting Principles Board Opinion Number 16, was accomplished by payment of \$7,000,000 in cash, the issuance of \$500,000 in convertible preferred stock ("1997-MAJOR Preferred"), such shares are convertible, by their terms, into 1,800,000 shares of the Company's common stock. Such common shares were valued at \$3.33 per share at the time the transaction was agreed to. The valuation was based on fair market value of the Company's freely trading shares and considered such factors as restrictions and blockage. The number of shares was determined, in accordance with the acquisition agreement, as the greater of (1) 1,800,000 shares and (2) that number of shares of common stock that had a market value of \$6,000,000. Together, the cash payment plus the 1997-MAJOR Preferred stock and the merger related expenses, represent a purchase price of approximately \$14 million. The assets and liabilities of Major were recorded at their historical book value. The real property, acquired from the principals of Major as part of the transaction, was recorded at its actual cash cost of \$3.4 million.

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

The discussion below contains, in addition to historical information, forward-looking statements that involve risks and uncertainty. 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, the Major Automotive Group of dealerships ("Major Auto") and related real estate for approximately \$14 million in cash and stock. Additionally, as a holding company, Fidelity Holdings, Inc. is involved in the acquisition and development of synergistic technological and telecommunications businesses and seeks to capitalize on other opportunities.

As a result of the acquisition of Major Auto, which comprises the Company's Automotive division, the Company is one of the largest volume retailers in New York City of new and used vehicles. The Automotive division consists of the following Major Auto 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.

Results of Operations - Nine-Month Period Ended September 30, 1998 and 1997

Revenues. 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. Revenue for the comparable period in 1997 was \$3,528,927. The primary source of the increase in revenues was the approximate \$62.7 million generated by Major Auto since May 14, 1998. This increase was offset, in part, primarily by the decrease in revenues from the Computer Telephony and Telecommunications division. The revenues of this division decreased \$(1,363,225) or (67.3%). This is a result of the Company's modified business plan, which is to discontinue sales to Master Agents and acquire the territorial rights and equipment of its existing Master Agents. Accordingly, the Company stopped selling to Master Agents during the third quarter of 1997 and has reached general agreement with its existing Master Agents and is concluding definitive contractual arrangements to acquire their territorial rights and equipment. The Company expects to utilize these assets in its development of new technological telephony applications.

Cost of Sales. The net cost of sales increase for the nine months ended September 30, 1998 of approximately \$64.2 million or 3,700% is primarily attributable to the automotive division which had a cost of sales of \$54,323,663 since its acquisition on May 14, 1998. This was partially offset by a decrease in cost of sales in the Computer Telephony and Telecommunications division. The cost of sales in that division in the 1998 period was \$469,727 compared with \$622,398 in the comparable 1997 period. This decrease of \$(152,671), or (24.5%), is consistent with the decrease in revenues related to the higher margin products sold by this division.

Gross profit. Gross profit showed a net increase of \$6,647,146, or 312.1%, to \$8,777,004 in the nine months ended September 30, 1998 from \$2,129,858 in the corresponding prior year's period. In the 1997 period, all of the gross profit was generated by the Computer Telephony and Telecommunications division. The gross profit from the Automotive division accounted for \$8,359,700 of the 1998 net increase. This Automotive division increase was partially offset by a decrease in the gross profit for the Computer Telephony and Telecommunications division in the 1998 nine-month period of \$(1,712,554), or (80.4%) to \$417,304. Gross profit as a percentage of sales in the Automotive division was 13.8% since the acquisition of Major Auto on May 14, 1998. Gross profit as a percentage of sales in the Computer Telephony and Telecommunications division decreased to 47.0% in the 1998 first three quarters, compared with gross profit of 77.4% in the comparable prior period. This, again, is the result of the curtailment of

higher gross profit sales to Master Agents that commenced in the third quarter of 1997.

Selling, general and administrative expense. Selling, general and administrative expenses ("SG&A") increased a total of \$5,238,883, or 290.2%, to \$7,044,093 in the nine months ended September 30, 1998 from \$1,805,210 from the comparable period in 1997. Of this net increase, \$5,637,825 relates to the Company's Automotive division acquired on May 14, 1998, a decrease of \$(289,263) relates to the Computer Telephony and Telecommunications division and a decrease of \$(109,679) is from the Leasing division. SG&A for the Computer Telephony and Telecommunications division decreased from \$1,276,557 for the first nine months of 1997 to \$987,294 for the nine months ended September 30, 1998, a decrease of (22.7%). This decrease is reflective of the reduced level of activity associated with the Company's Master Agents in the first three quarters of 1998. The decrease of \$(109,679), or (20.7%) in SG&A to \$418,974 for the Leasing division in the first three quarters of 1998 from \$528,653 in the comparable prior period is reflective of both operating efficiencies and a reduced level of activities.

Interest expense. Interest expense increased by \$651,639 to \$657,144 in the first nine months of 1998, from interest expense of \$105,505 incurred in the comparable period in 1997. This is primarily related to the floor plan interest in the Company's Automotive division of \$231,763 and interest incurred in financing the acquisition of Major Auto amounting to \$291,764, partially offset by a decrease in the Leasing division's interest cost as a result of decreased activity in that division.

Income on joint venture. The joint venture with Nissko Telecom showed no gain or loss during the 1998 period, compared with income of \$53,668 in the comparable prior period.

Results of Operations - Three-Month Period Ended September 30, 1998 and 1997

Revenues. Revenues for the three-month period ended September 30, 1998 increased approximately \$36.2 million or more than 3,000% to \$37,253,742. Revenue for the comparable period in 1997 was \$1,051,271. The primary source of the increase in revenues was the \$36,575,156 generated by Major Auto in the 1998 third quarter. This was offset, in part, by the decrease in revenues from the Computer Telephony and Telecommunications division. The revenues of this division decreased \$(450,430), or (58.9%). This resulted from the Company's planned curtailment of sales to Master Agents. Revenues for the Leasing division increased by \$77,745, or 27.1%, to \$364,788 in the current quarter from \$287,043 in the prior year's comparable quarter.

Cost of Sales. The net cost of sales increase for the three months ended September 30, 1998 of almost \$31.3 million, or almost 16,000%, is primarily attributable to the Automotive division which had a cost of goods sold of \$31,296,696 in the 1998 third quarter. This increase was partially offset by a decrease in cost of sales in the Computer Telephony and Telecommunications division. The cost of sales in that division in the three-month 1998 period was \$163,547, compared with \$195,619 in the comparable 1997 period. This decrease of \$(30,072), or (15.4%), is consistent with the decrease in revenues related to the higher margin products sold by this division.

Gross profit. Gross profit showed a net increase of \$4,858,102, or 854.4%, to \$5,426,711 in the three months ended September 30, 1998 from \$568,609 in the corresponding prior year's period. In the 1997 period, all of the gross profit was generated by the Computer Telephony and Telecommunications division. The

gross profit from the Automotive division accounted for \$5,278,460 of the 1998 net increase. This Automotive division increase was partially offset by a decrease in the gross profit for the Computer Telephony and Telecommunications division in the 1998 third quarter period of \$(420,358), or (73.3%) to \$148,251. Gross profit as a percentage of sales in the Automotive division was 14.4% in the three months ended September 30, 1998. Gross profit as a percentage of sales in the Computer Telephony and Telecommunications division decreased to 47.2% in the 1998 third quarter, compared with gross profit of 74.4% in the comparable prior period. This, again, is the result of the curtailment of higher gross profit sales to Master Agents that began in the third quarter of 1997.

Selling general and administrative expense. SG&A expenses increased a net total of \$3,876,105 or 575.5%, to \$4,549,607 in the three months ended September 30, 1998 from \$673,502 for the comparable period in 1997. Of this net increase, \$3,829,115 relates to the Company's Automotive division; an increase of \$178,822 relates to the Computer Telephony and Telecommunications division and a decrease of \$(131,832) is from the Leasing division. SG&A for the Computer Telephony and Telecommunications division increased from \$509,425 for the third quarter of 1997 to \$688,247 for the three months ended September 30, 1998, an increase of 35.1%. This increase is reflective of the higher level of corporate administrative expenditures associated with a much larger corporation following the merger with Major Auto, as well as the costs associated with the NASDAQ listing in the third quarter of 1998. The decrease in the Leasing division's SG&A expense of \$(131,832), or (80.3%) to \$32,245 in the third quarter of 1998 from \$164,077 in the comparable prior period is reflective of reduced personnel and operating efficiencies in that division.

Interest expense. Interest expense increased by \$288,811 to \$317,592 in the third quarter of 1998, compared with interest expense of \$31,781 incurred in the comparable period in 1997. This increase is primarily related to the floor plan interest of the Major Auto Group and the interest incurred on the financing of that acquisition, aggregating \$285,738.

Income on joint venture. The joint venture with Nissco Telecom showed no gain or loss during the 1998 period, compared with income of \$1,613 in the comparable prior period.

Assets, Liquidity and Capital Resources - September 30, 1998

Primarily as a result of the acquisition of Major Auto, the Company's total assets increased to approximately \$42.9 million at September 30, 1998 from approximately \$9.4 million at December 31, 1997. For the same reason, stockholders' equity increased to approximately \$18.3 million from \$6.3 million at December 31, 1997.

The Company's primary source of liquidity for the nine months ended September 30, 1998 was \$2,325,414 from its net income of \$910,373, as adjusted by non-cash charges which aggregated \$1,415,041. This net increase in cash was partially offset by the net effect of (a) a decrease in liabilities of \$9,329,954 (primarily related to Major Auto's floor plan notes), less (b) the net decrease of assets of \$6,110,251 (primarily from the decrease in the Automotive division's inventory of \$5,815,999 and a decrease in accounts receivable of \$1,535,270, following the acquisition of Major Auto), as partially offset by decreases in financing leases and other assets of \$548,763 and 690,155, respectively. The combination of record new and used cars sales for Major Auto during this period, coupled with a strike at General Motors, which restricted the Company's ability to obtain replacement cars for inventory during May and

June were the primary reasons for the significant inventory and floor planning decreases and an initial related increase in accounts receivable. The changeover in model years at the end of the summer kept inventory low, but the Automotive division receivables that had built up were substantially collected by the end of the period. The net result of all of the foregoing was a use of cash in operating activities of \$894,299.

The Company's investing activities had a net use of cash of \$6,610,799. The most significant component of this use was the acquisition of Major Auto, which used net cash of \$6,838,901. This use was partially offset by a decrease in property, plant and equipment aggregating \$228,102. All of this was more than offset by net cash provided by financing activities, which aggregated \$8,374,716, from the net proceeds of long-term debt. The primary sources of such debt were (1) the loan of \$7,500,000 from a third-party which was used to acquire Major Auto and its related real estate and (2) the proceeds of \$600,000 from the sale of convertible, subordinated debentures to a limited number of accredited investors.

The foregoing activities, i.e., operating, investing and financing, resulted in a net cash increase of \$869,628 for the nine months ended September 30, 1998.

The Company believes that the cash generated from existing operations and its new Automotive division, together with existing cash, available credit from its current lenders, including banks and floor planning, and the completion of its debenture offering, as well as future securities offerings 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 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 on or after January 1, 2000 ("Year 2000"). 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 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.

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

As part of its strategy to expand its automotive operations abroad, on October 1, 1998 the Company 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. 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, and (iii) 54,000 shares of Company common stock in connection with compliance with certain restrictive covenants contained in the Consulting Agreement (collectively, the "Shares"). The Company has the right to repurchase the Shares under certain circumstances at a price of up to \$4.00 per share (the "Repurchase Price"). As an inducement to Clemont to enter the Consulting Agreement, Clemont executed a put agreement with Bruce Bendell, Chairman, President and CEO of the Company on October 1, 1998 pursuant to which Mr. Bendell agreed, under certain conditions, to take on the obligation to purchase the Shares from Clemont at the Repurchase Price, during the consulting agreement period, less any shares repurchased by the Company.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 10.59. Consulting Agreement among Fidelity Holdings, Inc., Major Automotive Group Inc. and Clemont Investors Ltd., dated October 1, 1998

Exhibit 27. Financial Data Schedule

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: November 13, 1998

/s/ Bruce Bendell

Bruce Bendell, President/CEO

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT, made as of the 1st day of October, 1998, by and between:

FIDELITY HOLDINGS, INC., a Delaware corporation having its executive office at 80-02 Kew Gardens Road, Kew Gardens, New York 11415 (hereinafter referred to as "COMPANY") and its subsidiary, MAJOR AUTOMOTIVE GROUP, INC. (hereinafter "MAJOR")

AND

CLEMONT INVESTMENTS LTD., a Gibraltar corporation having its principal office at 292A Main Street, Gibraltar (hereinafter referred to as "CONSULTANT").

WITNESSETH THAT:

WHEREAS, COMPANY, through its wholly-owned subsidiary and division, Major Acquisition, Inc. (a/k/a "Major Automotive Group" and/or "Major Automotive Group, Inc."), is engaged in the business of selling and marketing automobiles, trucks, and other vehicles (the "Automotive Business") and has sought, and is seeking, to expand its Automotive Business in Russia and Eastern Europe;

WHEREAS, CONSULTANT is organized, inter alia to provide business advisory services regarding the establishment in Europe of branches or operations of U.S.-based companies, and as the result of activities in anticipation of this Consulting Agreement has developed various contacts, arrangements, relationships, etc. relating to the Automotive Business, and such experience and knowledge may be highly useful to MAJOR and its management;

WHEREAS, as the result of activities performed in anticipation of this Consulting Agreement relating to the Automotive Business, CONSULTANT has developed a list of potential contacts, clients, customers, strategic partners, and other businesses or entities who or which may be desirous of entering into business relations with MAJOR (the "LIST") which LIST MAJOR desires to acquire;

WHEREAS, CONSULTANT believes that the prior experience and business backgrounds and contacts of its management, employees and affiliates can be of value to the COMPANY and the COMPANY recognizes the benefits accruing to itself from CONSULTANT's association with the COMPANY and has agreed to employ CONSULTANT as a consultant to COMPANY on the herein terms and conditions, intending the CONSULTANT to rely on COMPANY's agreement thereto;

WHEREAS, COMPANY desires to retain the on-going contacts which CONSULTANT may develop as the result of the performance of services hereunder and retain solely the benefits which may be derived from the efforts of CONSULTANT on behalf of COMPANY by having the exclusive right to the consulting and advisory services of CONSULTANT relating to automotive industry and COMPANY's Automotive Business and to restrict

CONSULTANT with respect to its activities relating to the Automotive Business;

WHEREAS, the parties have agreed upon the terms of such arrangements and desire a written, formal contract to evidence their understandings;

NOW, THEREFORE, in consideration of the mutual promises, covenants and forbearances contained herein, and intending to be legally bound, the parties have agreed as follows:

I SUMMARY

1. SUMMARY OF AGREEMENT. This Agreement is divided into four (4) parts:

Part II: Consulting Services to MAJOR regarding the Automotive Business;

Part III: Conveyance of the LIST;

Part IV: Exclusivity/Restrictive Covenants; and

Part V: Miscellaneous provisions applicable to all Parts.

II CONSULTING AGREEMENT

2. CONSULTING EMPLOYMENT. For the term provided in Paragraph 3 following, COMPANY hereby employs CONSULTANT as a consultant and advisor, and CONSULTANT hereby accepts that employment, upon the terms and conditions hereinafter set forth in this Part II and Part IV below. CONSULTANT is an independent contractor without authority, either as principal or agent, to bind, commit or obligate the COMPANY or MAJOR in any way with any third parties. As an independent contractor, CONSULTANT shall be responsible for payment of its own taxes and the filing of its own tax reports and returns; the payment of wages, salaries and compensation to its employees, consultants, and agents; the withholding and payment of payroll taxes and related charges; and the carrying of all required insurance, including workmen's compensation.

3. TERM. (a) This Consulting Agreement shall become effective upon execution, except that the consulting services shall commence on January 1, 1999, or sooner at the option of the COMPANY with written notice to CONSULTANT.

(b) Part II of this Consulting Agreement shall continue and exist for a period of three (3) years from the effective date. Part IV of this Consulting Agreement shall continue and exist for the periods specified in the Paragraphs thereof.

4. COMPENSATION-BASE AND HARDSHIP. (a) For the basic services rendered under this Part II of this Consulting Agreement (i.e., for regular consulting and advisory services), COMPANY shall pay CONSULTANT a base fee in the form of Fifty-four Thousand (54,000) shares of the COMPANY's Common Stock. Such shares shall be issued immediately, in the name of CONSULTANT, upon the execution of this Agreement as thirty-six (36) certificates for 1,500 shares each, so as to establish CONSULTANT as a shareholder as of the date of issuance as to all 54,000 shares. However, CONSULTANT shall not be deemed vested with ownership of such shares until delivered to CONSULTANT as provided herein. The certificates shall be held in escrow by Robert Salad, Esq. who shall deliver a certificate for 1,500 shares to CONSULTANT monthly, in advance, for the services to be rendered for that month, commencing on January 1, 1999 for the services to be

rendered in the month of January, 1998 (or sooner at the COMPANY'S option as provided in Section 3 hereof). CONSULTANT shall not be entitled to vote any of the 54,000 shares, including the shares held in escrow pending delivery of such shares to CONSULTANT as provided herein until such shares are vested. Any dividends declared and or paid with respect to delivered and vested shares shall be paid directly to CONSULTANT. Any dividends declared or paid with respect to undelivered, unvested and escrowed shares shall be paid to Robert Salad, Esq. and shall also be held in escrow pending delivery and shall follow the delivery; i.e., proportionately delivered to CONSULTANT as the shares are delivered.

(b) The parties acknowledge that in negotiating this fee and its equal installment payment they recognized that the consulting and advisory services will probably not be performed in equal monthly segments, but may be substantial during the early portion of the term and less thereafter as MAJOR's relationships and communications lines are established. Thus, part of the compensation for earlier services will be deferred and the lessening or termination of services shall not constitute a breach or termination hereof, but the level fee shall continue. Furthermore, in view of MAJOR's and COMPANY's desire that CONSULTANT's services with respect to the automotive industry be exclusively for the benefit of MAJOR, any failure by MAJOR to assign projects shall not be deemed a breach of this Agreement by CONSULTANT.

(c) The parties recognize that the current political and economic climates of Russia and Eastern Europe are unstable, subject to substantial inflation, and involve the performance of on-site services under difficult, hardship, and possibly hazardous, conditions. Accordingly, where performance of the services will require actual travel to and presence in such areas, prior to the performance of any services, the parties shall establish a level of additional compensation, payable in cash or additional shares of COMPANY's Common Stock, as compensation for operations under such conditions. Such additional compensation shall take into consideration both the conditions applicable and the value of the services, and shall be in addition to any costs as provided in Paragraph 3(a) below.

3. DUTIES. CONSULTANT shall perform consulting and advisory services for MAJOR with respect to establishment and expansion of its Automotive Business in Russia and Eastern Europe (the "Territory"). CONSULTANT shall have no responsibility for, and shall not have any involvement in, matters affecting the Company outside of the Territory unless otherwise directed in writing by the President. CONSULTANT shall act, within and with respect to such Territory, as a business consultant and advisor to MAJOR, performing services as MAJOR shall request or direct, including but not limited to:

(a) As MAJOR shall request or direct in writing, CONSULTANT shall seek to make MAJOR and its Automotive Business known to the financial and business community in Russia and Eastern Europe and to the financial community interested in or capable of financing MAJOR's dealerships and distributorships or consumer purchases, as well as the business and financial media and the public generally.

(b) As MAJOR shall request or direct in writing, CONSULTANT shall assist in contacting, establishing communication with, and introducing MAJOR's executives to, financial institutions and investors potentially interested in (i) securing a franchise or entering into a relationship with MAJOR for the establishment of a dealership or distributorship, or (ii) providing floor plan financing to MAJOR or one of its importers, dealers or distributors, or (iii) providing consumer financing for the purchase of automobiles, trucks or other motor vehicles from MAJOR, or one of its dealers or distributors.

(c) As MAJOR shall request or direct in writing, CONSULTANT shall serve as a liaison between MAJOR and the Russian and Eastern European automotive industry and relevant government agencies, and CONSULTANT shall provide such analyses of the Russian and European automotive markets as MAJOR may request.

(d) As MAJOR shall request or direct in writing, advise MAJOR with respect to its and its dealers and distributors sales and marketing arrangements and plans, including: specific marketing and sales focuses by country or region; public relations and advertising programs, media selection, industry trade shows, and expenditures therefor; employment of import brokers, transportation companies, sales representatives and distributors; pricing and sales terms; product feature emphasis; product bundling and un-bundling; licensing, franchise, dealership and distributorship agreements; and other factors relating to MAJOR's Automotive Business.

(e) As MAJOR shall request or direct in writing, assist MAJOR in finding, recruiting, hiring, compensating and retaining dealers, distributors, and sales and marketing personnel.

(f) As MAJOR shall request or direct in writing, assist COMPANY in analyzing business and product strengths and weaknesses, advising on competition and the current automotive markets in the various countries, devising and revising a business plan for the geographic areas.

(g) As MAJOR shall request or direct in writing, assist MAJOR in securing capital financing, both debt and equity financing, for its Automotive Business.

(h) As MAJOR shall request or direct in writing, assist MAJOR in establishing an acquisition strategy within the geographical areas, introduce MAJOR to potential dealership and distributorship acquisition candidates and assist MAJOR to identify, contact, analyze and negotiate with potential dealership and distributorship acquisition candidates.

(i) As MAJOR shall request or direct in writing, assist MAJOR in securing trade name and product exposure and advise with respect to securing media coverage and exposure.

(j) CONSULTANT shall perform such other consulting and advisory duties as MAJOR's Management may reasonably request in writing, consistent with the foregoing duties.

Notwithstanding the foregoing, CONSULTANT shall cause its employees to devote up to fifty (50%) percent of their business time and attention to the COMPANY's matters, if so requested in writing.

6. EXTENT AND PLACE OF SERVICES. CONSULTANT shall devote such adequate, reasonable, and proper time, attention, and energies to the business of MAJOR as shall be necessary or consistent with the performance of its duties hereunder. It is understood that, except as provided by Paragraph 10 in Part IV below, CONSULTANT has and/or may have other employment or consulting arrangements and that this engagement is neither exclusive nor full-time. The consulting and advisory services of CONSULTANT shall be performed off-shore, i.e., outside of

the United States.

7. WORKING FACILITIES. CONSULTANT shall provide its services from its own offices the cost for which offices shall be at CONSULTANT's own expense. MAJOR shall provide such local and regional site offices and such personnel support as may be mutually agreed upon from time to time.

8. EXPENSES. (a) CONSULTANT, in providing the foregoing services, shall advise MAJOR in advance of the performance of such services, of the costs anticipated to be incurred in the performance of such services and shall establish with MAJOR a costs budget. MAJOR shall be responsible for all budgeted costs of providing the services including, but not limited to, out-of-pocket expenses for travel, entertainment, postage, express delivery and messenger service, telephone/ facsimile charges, as well as compensation to third party vendors, consultants, advisors, and agents. Such costs shall be in addition to any additional compensation as provided in Paragraphs 4(a) and 4(c) above.

(b) Except for costs budgeted as provided above, CONSULTANT is not authorized to incur expenses on behalf of, or chargeable to, COMPANY, with respect to the business travel of its management, employees or affiliates, including transportation, lodging, food, entertainment, etc. except within such guidelines as may be established from time to time by the Board of Directors of COMPANY, or as specially agreed upon, in advance, for any specific project. COMPANY shall reimburse CONSULTANT for authorized expenses within such guidelines or prior agreement upon presentation by CONSULTANT, from time to time, of an itemized account of such expenditures in such form as COMPANY may require, together with receipts or other proofs of the expenditures as may be required.

III CONVEYANCE OF LIST

9. CONVEYANCE OF THE LIST. (a) Prior to the execution of this Agreement, COMPANY has examined the LIST, is aware of its contents, and accepts such LIST hereunder with the specific understanding that CONSULTANT makes no representation or warranty that any such persons or entities listed shall enter into any business arrangement with COMPANY, and it shall be the responsibility of COMPANY to further contact such persons and entities, negotiate with them, and reach any agreement or relationship.

(b) CONSULTANT represents and warrants:

(i) although compiled by its affiliates, officers, directors, agents and/or consultants, CONSULTANT is the owner of such LIST and has the authority to convey such LIST to MAJOR;

(ii) such LIST contains the names and addresses of each and every contact, potential client, potential customer, potential strategic partner, and other businesses which may be interested in entering into a business relationship with MAJOR pertaining to its Automotive Business, and CONSULTANT has not withheld the names and addresses of any potential contacts, clients, customers, strategic partners, or business contacts which could be useful to MAJOR with respect to its Automotive Business.

(iii) CONSULTANT has not previously conveyed, or disclosed, the names and addresses on such LIST to any other of its consulting clients, has not entered into any other agreement or understanding for the conveyance or disclosure of such LIST, such LIST was not compiled by reason of funding or a contractual

commitment from any other consulting client, and there are no liens, claims, encumbrances or charges of any kind pertaining to such LIST.

(iv) Upon the conveyance of such LIST hereunder, CONSULTANT shall treat such LIST as the exclusive property of MAJOR and shall not itself use, or use, disclose, or convey any of the names and addresses on such LIST for its own benefit or for the benefit of any person or entity, whether or not a consulting client.

(b) CONSULTANT, on behalf of itself, its affiliates, shareholders, officers, directors, employees, agents and consultants, hereby conveys, sells, transfer and assigns all of its right, title and interest in and to the LIST to MAJOR, free and clear of any liens, claims, encumbrances and charges, of any kind whatsoever.

(c) In consideration for the conveyance of the LIST to MAJOR, COMPANY shall issue to CONSULTANT, upon the execution hereof, Seventy-nine Thousand Five Hundred (79,500) shares of its Common Stock. Such issuance shall be in full and complete payment of the LIST, there shall be no further compensation due to CONSULTANT in the event that COMPANY and/or MAJOR shall negotiate any agreement or develop any relationship with any named person or entity, and such shares shall be deemed earned by CONSULTANT upon conveyance of the LIST and without the required performance of any future services with respect thereto.

IV
EXCLUSIVITY OF CONSULTING SERVICES
AND
RESTRICTIVE COVENANTS

10. EXCLUSIVITY. CONSULTANT, on behalf of itself, its officers, directors, employees and agents, agrees that, during the term of the three years of consulting services provided in Part II above, and for a period of two (2) years thereafter, or for a period to December 31, 2003, it shall not, directly or indirectly, consult for, and provide advisory services to, or provide any information to, any person or entity engaged in the Automotive Business. CONSULTANT shall not, directly or indirectly, contact, solicit, or direct any person, firm or corporation, to contact any other person or entity engaged in the automotive industry for the purpose of providing consulting or advisory services, or information, that are the same as or similar to, any services or information provided to MAJOR by CONSULTANT hereunder.

11. NON-DISCLOSURE OF INFORMATION. CONSULTANT recognizes and acknowledges that, during the course of its employment hereunder, it will have access to valuable proprietary information relating to MAJOR and its Automotive Business, a substantial portion of which may be developed or created by CONSULTANT in the performance of its services hereunder, and that such information constitutes unique assets of the business of MAJOR and the COMPANY. To the extent that such proprietary information is developed by CONSULTANT pursuant to the performance of its consulting services under Part II above, CONSULTANT hereby assigns to MAJOR, without further consideration to CONSULTANT, the entire right title and interest in and to the such work product and in and to all proprietary rights therein or based thereon, and CONSULTANT agrees that the work product shall be deemed to be a "work made for hire". Neither CONSULTANT nor any of its affiliates, employees, officers, directors, agents and consultant will, during or after CONSULTANT's employment, personally use or disclose all, or any part of, such proprietary information to any person, firm, corporation, association, agency, or other entity except as properly required in the conduct of the

business of MAJOR and/or the COMPANY, or except as authorized in writing by MAJOR, publish, disclose or authorize anyone else to publish or disclose, any secret or confidential matter relating to any aspect of the business of MAJOR with which CONSULTANT'S service may in any way acquaint CONSULTANT. In the event of a breach, or threatened breach, by CONSULTANT, of the provisions of this Paragraph, COMPANY and/or MAJOR shall be entitled to a preliminary, temporary and permanent injunction restraining CONSULTANT from disclosing in whole or in part, any such proprietary information and/or form rendering any services to any person, firm, corporation, association, agency, or other entity to whom such information, in whole or in part, has been disclosed or is threatened to be disclosed. Furthermore, nothing herein shall be construed as prohibiting COMPANY and/or MAJOR from pursuing any other equitable or legal remedies available to it for such breach or threatened breach, including the recovery of damages from CONSULTANT.

12. NONSOLICITATION COVENANT. During the term of this Agreement and for a period of two (2) years after the termination of this Agreement CONSULTANT shall not solicit, directly or indirectly, by any means, any of the MAJOR's customers, prospective customers, or employees, either for itself or any other person or entity.

13. NON-COMPETITION COVENANT. During the term of this Agreement and for a period of two (2) years after the termination of this Agreement CONSULTANT shall not, directly or indirectly, engage in or carry on in any manner (including, without limitation, as principal, shareholder (other than a passive investor with less than a five percent (5%) interest), partner, lender, agent, employee, consultant, or investor (other than a passive investor with less than a five percent (5%) interest), trustee, or through the agency of any corporation, partnerships, limited liability company or association) any business in competition with MAJOR or its Automotive Business.

14. CONSIDERATION. (a) In consideration for the foregoing covenants of exclusivity, non-disclosure, nonsolicitation and non-competition, COMPANY shall pay CONSULTANT a fee of Fifty-four Thousand (54,000) shares of the COMPANY's Common Stock. Such shares shall be issued, in the name of CONSULTANT, immediately upon the execution of this Agreement as thirty-six (36) certificates for 1,500 shares each, so as to establish CONSULTANT as a shareholder as of the date of issuance as to all 54,000 shares. However, CONSULTANT shall not be deemed vested with ownership of such shares until delivered to CONSULTANT as provided herein. The certificates shall be held in escrow by Robert Salad, Esq. who shall deliver a certificate for 1,500 shares to CONSULTANT monthly, commencing on January 1, 1999 (or sooner at the COMPANY'S option as provided in Section 3 hereof). CONSULTANT shall not be entitled to vote all 54,000 shares, including all shares held in escrow, pending delivery of such shares to CONSULTANT as provided herein until such shares are vested. Any dividends declared and or paid with respect to delivered and vested shares shall be paid directly to CONSULTANT. Any dividends declared or paid with respect to undelivered, unvested and escrowed shares shall be paid to Robert Salad, Esq. and shall also be held in escrow pending disposition and shall follow the disposition; i.e., proportionately delivered to CONSULTANT as the shares are delivered.

(b) In addition to the foregoing, any shares allocated as fee compensation for the performance of consulting and advisory services under Part II which COMPANY shall not consider to have been "earned" by the performance of actual consultin

and advisory services shall be deemed additional consideration for the
exclusivity covenant.

PART V
MISCELLANEOUS

15. ISSUANCE FOR INVESTMENT PURPOSES/CALL. (a) CONSULTANT acknowledges that the shares being issued pursuant to this Consulting Agreement are being issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, and have not been registered with the Securities and Exchange Commission or any state securities commission or agency. CONSULTANT represents and warrants that it is acquiring such shares for investment and not, directly or indirectly, with a view to, or for resale in connection with, and distribution of the shares. The certificates for all of the shares being issued pursuant to this Consulting Agreement shall bear a legend on the face thereof indicating that such shares have not been registered under the Securities Act of 1933 and are restricted as to further transfer as provided by Section 4(2) and the rules and regulations thereunder. All of the shares issued hereunder shall be issued as "restricted shares" as set forth above.

(b) COMPANY is hereby granted the right, by CONSULTANT, to call and redeem (redeemable) the shares being issued hereunder. On or before the fifteenth (15th) day of each month, commencing January 1, 1999 (or sooner at the COMPANY'S option as provided in Section 3 hereof) and continuing for the thirty-six month term of Part II, time being of the essence of this provision, COMPANY may deliver written notice of CONSULTANT'S intent to repurchase up to five thousand two hundred eighty (5,208) shares of the total 157,500 shares being issued hereunder to the extent such shares are available (have not been sold by CONSULTANT) at the time of the call. The call (redemption and repurchase) price shall be the highest of:

(1) Four Dollars (\$4.00) per share; and

(2) Twenty-five percent (25%) of the average closing bid price of the COMPANY'S Common Stock on the NASDAQ Bulletin Board, Small-Cap Market or National Market, as the case may be, during the twenty (20) trading days immediately preceding the date of the call.

To exercise the call, the COMPANY shall contemporaneously deliver, time being of the essence of this provision, a copy of its notice, together with a bank cashier's check, Bank Secretary's or Treasurer's check, or its certified check, in the full amount of the redemption price, to Robert Salad, Esq., the Escrow Agent. The Escrow Agent shall promptly advise CONSULTANT of the receipt of such funds and CONSULTANT shall deliver to the Escrow Agent certificates for sufficient shares to meet the call, together with a blank stock power with Medallion guarantee. The Escrow Agent shall send such certificate(s) and power to the COMPANY'S transfer agent with instructions to transfer 5,208 shares to the COMPANY and return the balance, in the name of CONSULTANT, to the Escrow Agent for return to the CONSULTANT.

16. MUTUAL COVENANT NOT TO SUE/CROSS-INDEMNIFICATION. (a) Except for specific breaches of this Agreement, or in the event of fraud, gross negligence, or malfeasance, the parties hereby covenant that neither shall sue the other for any loss, claim, damage, or liability arising out of the performance of the consulting services contemplated herein.

(b) Each party hereby indemnifies the other against, and agrees to hold the other harmless from, any losses, claims, damages, or liabilities arising out of the performance of the consulting services, except insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon specific breaches of this Agreement or fraud, gross negligence, or malfeasance.

17. WAIVER OF BREACH. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by such other party.

18. BENEFIT. The rights and obligations of COMPANY and/or MAJOR under this Agreement shall inure to the benefit of, and shall be binding upon, their successors and assigns. The protection of Part IV shall inure to the benefit of COMPANY, MAJOR and any successors and assigns.

19. LIMITATION OF LIABILITY OF CONSULTANT. The liability of CONSULTANT to the COMPANY and/or MAJOR in the event of a breach of this Agreement by the CONSULTANT shall be limited to the shares issued to CONSULTANT pursuant to Part II for its services hereunder.

20. NOTICES. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and if sent by certified mail to the principal office of the other party.

21. ENTIRE AGREEMENT. This instrument contains the entire agreement of the parties and may be modified only by agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

22. APPLICABLE LAW/VENUE AND JURISDICTION. This Agreement shall be governed for all purposes by the laws of Gibraltar, without giving effect to the conflict of laws principles thereof. In the event of any litigation with respect to the interpretation of this Consulting Agreement, or a claimed breach of this Consulting Agreement, or for any other matter arising out of this Consulting Agreement, directly or indirectly, venue and jurisdiction shall be exclusively vested in the courts of Gibraltar having jurisdiction over the subject matter and each of the parties hereby waives any claim to venue or jurisdiction in any other place or court and irrevocably submit to the jurisdiction of any court sitting in Gibraltar.

23. COUNTERPARTS/FACSIMILE. This Agreement may be executed in any number of identical counterparts, each of which, when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. This Agreement may be executed by facsimile and such facsimile signatures shall be deemed to be originals.

24. ASSIGNMENT/DELEGATION. Except for delegation of duties to officers, directors, employees, agents and consultants, CONSULTANT shall not delegate its duties hereunder to any other entity. Subject to any applicable securities laws, rules and regulations, CONSULTANT may assign or anticipate its receipt of any shares hereunder, prior to delivery by the Escrow Agent, subject to the provisions of Paragraph 15 above. COMPANY may not assign its rights hereunder to any party other than MAJOR.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have hereunto set their hands and seals as of the day and year hereinabove

FIDELITY HOLDINGS, INC.

By: /s/ Bruce Bendall

/s/ Christine Feiner

MAJOR AUTOMOTIVE GROUP, INC.

By: /s/ Eric Merrill

10/12/2011 11:51 AM

CLEMENT INVESTMENTS LTD.

By: /s/ Robert Salad

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
NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS AND FOOTNOTES.
</LEGEND>

| | 9-MOS | 3-MOS |
|------------------------------|-------------|-------------|
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| <FISCAL-YEAR-END> | SEP-30-1998 | SEP-30-1998 |
| <PERIOD-END> | | |
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| <CGS> | 54,793,390 | 31,462,243 |
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| <LOSS-PROVISION> | 0 | 0 |
| <INTEREST-EXPENSE> | 657,144 | 317,892 |
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| <INCOME-TAX> | 428,000 | 238,000 |
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| <EPS-PRIMARY> | .13 | .06 |
| <EPS-DILUTED> | .10 | .05 |

8K – \$11.3 Million Debt Facility: Fidelity Holdings,
Inc./Computer Business Sciences, Inc.

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 | (Commission | (IRS Employer |
| jurisdiction of incorporation) | File Number) | 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 following summary 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 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 One Thousand Five Hundred Sixty-Three and 64/100 Dollars (\$1,563.64) and (ii) Warrants to acquire 130.3030 shares 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 Common Stock issuable upon conversion of or otherwise pursuant to the Debentures are referred to herein as the "Convertible Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred herein as the "Warrant Shares."