



Letter to our Shareholders

For Farmstead, 2000 was a year of record growth and significant progress — one in which we built a solid foundation for an even brighter future. Customer acceptance of our programs and solutions continued to grow, adding up to a record operating performance:

- Revenue was up 30% over 1999 — from \$32,871,000 to a record \$42,786,000
- For the third year in a row net income was also positive, and at a record \$1,753,000
- Earnings per share increased from \$.02 in 1999 to \$.54 in 2000

The most important driver to our success was our enterprise business — spurred by Avaya Inc.'s continuing strategy to increase its indirect channel presence by outsourcing a greater portion of its sales to companies such as Farmstead. In 2001, Avaya is projecting that 50% of their \$7.4 billion business will be outsourced. Farmstead is well positioned in this area, ranking in the top ten of Avaya's 750 dealers with plans to move aggressively up the line. In fact, Farmstead ranked fourth in an annual survey conducted by *Teleconnect* Magazine to determine the top 200 U.S. interconnect companies in the sale of telephone equipment.

With growth comes change, and in August we strengthened our senior management team and initiated a strategic re-engineering effort to streamline all aspects of the company, and improve profitability while continuing revenue growth. This team's impressive work was key to our success in 2000.

Other highlights from this millennium year include:

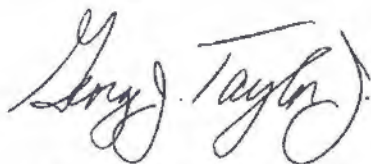
- Farmstead shipped product to over 10,000 new customers in 2000.
- The Avaya Classic Fulfillment Center, our in-house catalog operation which handles referrals from Avaya for discontinued product, topped \$2.5 million in revenues.
- Our Provisioning & Services department exceeded all expectations by increasing revenues by 33% over 1999 levels. As Avaya continues its outsourcing strategy, this department heads into its second year with an aggressive plan to offer a solid alternative for installation and design services on a nationwide basis.
- A new Global Account Team was created to serve the specific needs of some of Avaya's largest customers. This group was also set up to help usher Farmstead into other rapidly growing areas such as data, convergence and wireless solutions.
- Our reputation as a national presence continues to mature. With satellite offices now in 12 major cities, our sales outside the Northeast have grown continually since we began this expansion phase in 1998.

- Farmstead continues to be a leader in e-business solutions for its customer base. Currently, several of our large customers order products through a secure Custom Catalog accessed through our web site. Plans for the future include a second, public catalog and a knowledge-based, self-help site to augment our Customer Service Center.
- For the fourth year in a row the Connecticut Technology Fast 50 named Farmstead as one of the fastest growing technology companies in the state. This program also serves as the regional awards program for the Deloitte & Touche national Fast 500.

Looking ahead to 2001 and beyond, we see continued strong demand for our products and services. In order to ensure shareholder value, our focus will be on leveraging the huge amount of business made available to the indirect channel by Avaya; expanding our national footprint to serve the needs of our large, multi-location customers; and readying the company for the inevitable transition to converged voice and data solutions.

We recognize the obligations that go along with being a market leader — to our customers, our employees and our shareholders. And we will stay focused on our long term goal to become the premier indirect channel supplier of Avaya products and services. The market is searching for innovative providers of existing and next-generation communications solutions, and we intend to deliver them with a level of service unparalleled in the industry.

Sincerely,

A handwritten signature in cursive script that reads "George J. Taylor, Jr." The signature is written in dark ink and is positioned above the typed name.

George J. Taylor, Jr.
Chairman & Chief Executive Officer
April 2, 2001