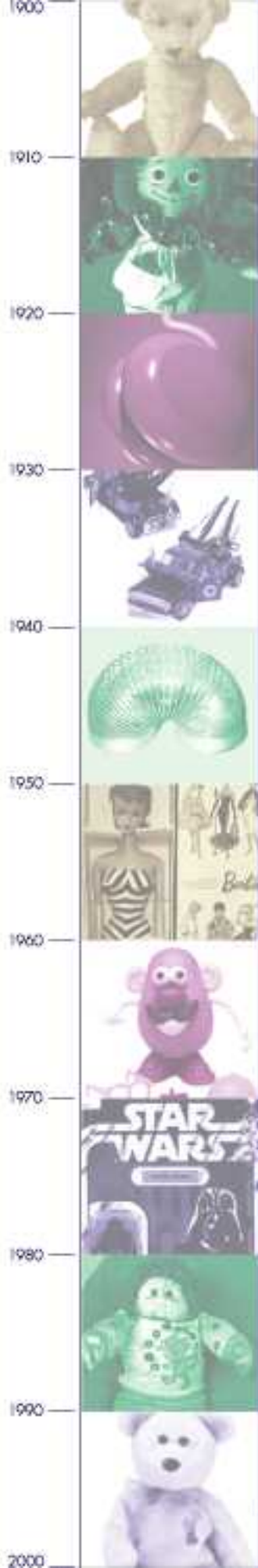


Smith & Sons Quality Toys, Inc.

A CENTURY OF SUCCESS



THE COMPANY PROFILE

Smith & Sons Quality Toys Inc. is one of the nation's largest fully family-run operations. For a century now, our company has invested with a long-term focus on thorough research and attention to risk. Our company's great emphasis is on past achievements. We look toward our future with brightness. As it has in the past, Smith & Sons stood tall against an all so general stock market downturn, producing a good positive total return for the a year of 3.8%, which includes the benefit of on reinvested dividends.

TABLE OF CONTENTS

Financial Highlights	2
Letter to Shareholders	3
Company Overview	5
Management	7
Financial Information	9
Corporate Information	11
Notes	13



<i>Operating Results</i>	2000	1999	1998
Revenue	\$508,474	\$ 479,780	\$ 416,143
Earnings before interest, taxes, depreciation and amortization	35,445	34,900	29,003
Income from operations	22,383	21,695	18,794
Net Income	9,504	9,426	8,683
Cash from operation	22,548	20,821	22,116
<i>Per Share</i>			
Basic earnings	\$ 0.96	\$ 0.95	\$ 0.90
Fully diluted earnings	0.88	0.87	0.83
Dividends	0.07	0.07	0.07
Capital Gain Distributions	0.98	0.68	0.48
<i>Financial Position</i>			
Total assets	\$ 207,420	\$ 203,735	\$ 208,261
Interest Bearing Debt	72,716	81,104	94,212
Shareholders' equity	80,006	70,657	64,775



Revenues From Service

Sales of Goods	\$54,828	\$47,785	\$43,749
Sales of Services	18,126	16,283	14,938
Other Income	436	798	649
Earnings of GECS	—	—	—

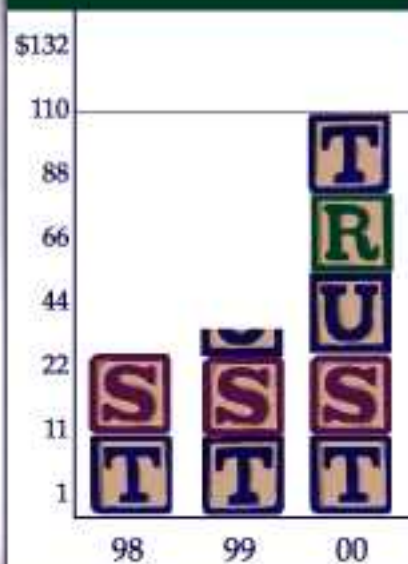
Earnings Before Income Taxes

Provision for Income Taxes	\$5,711	\$4,860	\$4,181
Diluted Earnings Per Share	\$1.27	\$1.07	\$0.93
Basic Earnings Per Share	\$1.29	\$1.09	\$0.95
Net Earnings	\$12,735	\$10,717	\$9,296

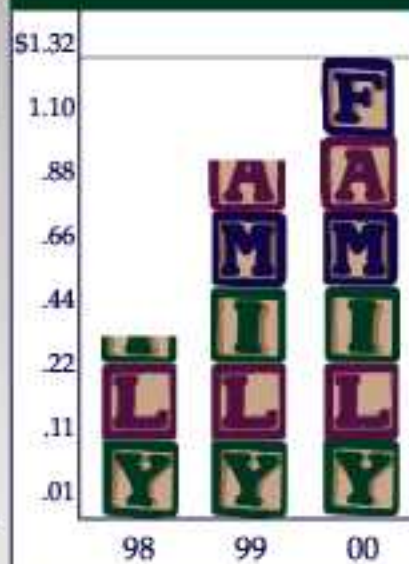
Dividends Declared Per Share

Dividends Per Share	\$0.57	\$0.48	\$0.41
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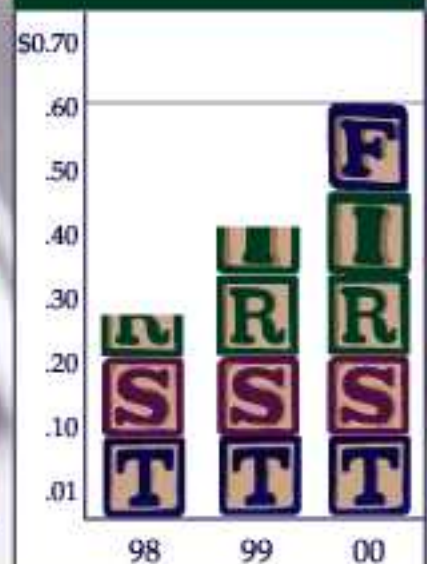
CONSOLIDATED REVENUES



EARNINGS PER SHARE



DIVIDENDS PER SHARE



Organization and Nature of Operations- Smith & Sons Quality Toys, Inc. was organized in October of 1900. Smith & Sons provide Internet access, services and products to both organizations and individuals throughout the United States and internationally. The Company offers a broad spectrum of Internet access services ranging from dial-up services to continuous access services using dedicated high-speed telephone circuits. In addition, the Company offers game design and toy services, training and consulting services, Internet access security services and client software products. The Company's operations are subject to certain risks and uncertainties including, among others, prospective competition by entities with greater financial and other resources, risks associated with the development of the toy industry, risks associated with growth and domestic and global expansion within the industry and beyond, risks associated with acquisitions, risks associated with experience in the market for individual customers and the toy industry, technology and regulatory risks, and dependence upon sole and limited source suppliers.

Summary of Significant Accounting Policies- The preparation of games and toys in conformity with generally accepted accounting principles requires management to make estimates/assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Principles of Consolidation- The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition- Revenue and related direct costs from subscriber contracts are recognized ratably over the terms of the contracts, which are generally three to twelve months. Cash received in advance of revenues earned is recorded as deferred revenue. Revenue from the sale of software, including sales to distributors, resellers and original equipment manufacturers, is generally recognized when software products are shipped. Revenue from separate post-contract customer support agreements is recognized over the contract period.



Cash and Cash Equivalents- All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

Concentrations of Credit Risk- Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company's investment policies limit investments to short-term, investment grade instruments. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base.

Inventories- Inventories are stated at the lower of cost or market. Costs are based on first-in, first-out method. Property and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of five years. Leasehold improvements, including labor and overhead costs of installations, over the shorter of the term of the related lease or the estimated useful lives of the assets.

Equipment Under Capital Lease- The Company leases its data communications equipment and other fixed assets under capital lease agreements. The assets and liabilities under capital leases are recorded at the lesser of present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Assets under these capital leases are depreciated over the near total estimated useful lives of five years, which are generally longer than the terms of the leases.

Intangible Assets- The Company continually reviews goodwill and other assets to assess recoverability, and impairments, if any, are recognized in operating results in the period in which the permanent diminution in value is determined.



*Good
things are
meant to last
over time.*



1900

1910

1920

1930

1940

1950

1960

1970

1980

1990

2000



THE BOARD OF DIRECTORS

Charles H. Black, PhD
Louise H. Bartlesby
Malcolm R. Currie
Mary Ann Dailey, PhD
Martin B. Lovelace
John G. McDonald
Bailey P. Morris, PhD
Michael C. Shanahan
Richard G. Newman

ADVISORY BOARD MEMBERS

Thomas M. Crosby
Ellen H. Goldenberg
Farzad Eck Nazem
Robert J. O'Neil, PhD
William J. Spencer

Smith & Sons
Quality Toys, Inc.