

A MESSAGE TO OUR STOCKHOLDERS

Better People: Talented people are the most important resource of WMS. People create and build our entertaining products, they cultivate the relationships with our customers and they drive our innovation and continuous improvement. Stepping up efforts to provide new opportunities to learn, develop and grow as individuals and productive employees, we are also driving increased accountability and recognition.

Better Business: By embracing and celebrating our culture, developing our people and increasing employee engagement, we nourish a workplace that fosters innovation, passion and continuous improvement to create better products and processes that yield greater value for customers, players and stockholders. **Better World:** As a transformative company, we can favorably influence the communities in which we live and work to shape a better world.

Fiscal 2012 was a year of both great challenges and significant accomplishments. We began the year by announcing the retooling of our product plan, the elimination of some non-core products and a restructuring of our organization, including a reduction in force. As a result, everyone had to step forward and learn to do more with less in our concerted efforts to contain costs. But we fought through this transition, and our employees across the company worked diligently to restore the normal flow in commercialization of new products (from development through regulatory approvals) to improve our cost structure, to continue to invest in innovation and to strengthen the foundation of WMS for the future.

Looking back over the past year, I know our employees sometimes felt as if they had never worked harder or faced more obstacles. They adapted to meet the organizational changes, maintained their confidence in the face of significant company evolution and worked hard to meet the needs of our customers. I would like to thank each and every employee for their dedication, their passion and their continued focus on pursuing our goals. I have never been prouder of their teamwork and accomplishments.

In fiscal 2012, WMS earned \$64 million in net income on total revenues of \$690 million. We invested \$83 million of capital to strengthen and upgrade our gaming operations business for the future, another \$81 million to expand and enhance our facilities and our IT infrastructure around the world to create a stimulating workplace environment that will inspire our employees' creativity and \$30 million to acquire technologies

BETTER PEOPLE BETTER BUSINESS BETTER WORLD

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and businesses. We spent \$95 million, or nearly 14% of our total revenue, on research and development initiatives to fund our innovation pipeline, future new products and capabilities, and we returned \$50 million to stockholders through our share repurchase program.

The WMS team made meaningful progress in our operating execution, which manifested itself in steady financial improvements in revenues and margins on a quarterly sequential basis. After beginning the year with the critical review of our business strategies, our organization and our product plans to assess what we needed to do to reestablish growth, we executed well on implementing the changes. We found that our strategic direction was right, but our customers were telling us the timing of implementing new technologies on their casino floor was incompatible with their capital plans in the present economic environment. As one customer aptly put it, "Our forward-looking technology had gotten us ahead of our skis in this economic environment."



BRIAN R. GAMACHE
CHAIRMAN OF
THE BOARD AND
CHIEF EXECUTIVE
OFFICER

WMS 2012

TOTAL REVENUE

of

\$690 million



BY END OF FISCAL 2012, WE HAD LAUNCHED A NUMBER OF INNOVATIVE NEW PRODUCTS THAT WERE SETTING A NEW STANDARD OF GAMING ENTERTAINMENT.

As a result of our assessment, we refined our product plans to put our development focus squarely on what our customers told us they needed in today's still weakened economic conditions. We prioritized our specific R&D initiatives and thus proactively restructured our organization to revitalize our development teams and strengthen our entire supply chain. We also reduced our entire workforce by approximately 10% to both streamline certain functions and lower our overall organizational cost structure.

Importantly, what our customers were telling us was that they wanted more great-performing content, which aligns seamlessly with our core competency. As the worldly philosopher Yogi Berra once stated, "When you come to a fork in the road...take it." And we did; unfortunately, the road was a bit bumpy for us!

Our game development studios underwent changes to sharpen focus and enable better collaboration. Our goal was to inspire fresh creativity and also speed the development cycle. Following our realignment initiatives in late summer 2011, we began to make

progress in the rate of commercialization of new products, with a number of our new games obtaining their initial jurisdictional approvals in September and October and then continuing through the rest of the year. Over the course of the year, our teams made significant progress. By June 2012, we benefited from changes in our development cycle to fast track additional new for-sale games once we determine we have a hit on our hands. Our new products were once more getting approved on schedule, and we had launched a number of new innovative products that set a new standard for industry entertainment, such as the new Wide-Area Progressive, *Aladdin & the Magic Quest*® game that debuted our next generation operating system and also incorporates synchronized chair motion with its game play.

We coupled our renewed development efforts with a significant expansion in the number and diversity of math models upon which our new games were to be developed, thus creating a much greater range in differentiation of gaming experience for players. We also expanded initiatives that provided us with greater research into determining a better balance of game differentiation on casino floors. We learned a lot about the benefits of a better balance of game content and gaming machines to enhance the performance and productivity of the casino floor for our customers.

As we ended fiscal 2012 and entered fiscal 2013, we were pleased with our operational progress. We had anticipated faster improvement in financial results, but the continued global economic challenges and increased

competitive environment were a significant drag on our rate of improvement. Importantly, our operating accomplishments solidified our foundation for what we believe will be the next chapter in our long-term growth. In addition to the progress already mentioned, during the year we:

- Launched successfully our new *Bluebird®2e* cabinet with emotive lighting, adapted our proven *Bluebird2* cabinet and *CPU-NXT®2* operating platform for Class II markets and launched our first participation games on our new, next-generation *CPU-NXT3* platform.
- Improved our product unit ship share from approximately 18% in the July-to-December 2011 six-month period to more than 22% in the January-to-June 2012 six-month period, among the top five slot gaming suppliers in the U.S. and Canadian marketplace.
- Secured a key partnership with Station Casinos to launch our new *My Poker®* video poker gaming machines in the Las Vegas locals market in fiscal 2013.
- Invested aggressively in upgrading our installed participation base to new *Bluebird2* and *Bluebird xD™* gaming machines, as we now have about two-thirds of our installed base on these cabinets.
- Selected to participate in the VLT replacement programs by Alberta and Manitoba, Canada, with shipments beginning in FY 2013.

WMS 2012

\$877 million

in total

STOCKHOLDERS' EQUITY

- Built state-of-the-art technology facilities that will house our development teams in Chicago and India, and we upgraded our Waukegan data center to a Tier 2 Plus industry functionality standard to support continuous operations of our business.
- Secured a \$400 million long-term credit facility that provides ample financial flexibility and resources for the years ahead.
- Received recognition once again from the *Chicago Tribune* and others as one of the best workplaces in greater metropolitan Chicago.
- And continued to recruit top talent to bring a level of expertise and experience in "Best Practices" to all areas of the Company.

WE BELIEVE THAT
OUR OPERATING
PROGRESS AND
ACCOMPLISHMENTS
IN FISCAL 2012
SOLIDIFIED THE
FOUNDATION FOR
OUR NEXT PHASE
OF GROWTH.

In addition to the progress we made in our business and in strengthening the total foundation of WMS, we made significant strides in building, organically and through supplemental acquisitions,

WMS 2012

\$95 million

spent on

R&D INITIATIVES



WE SAW THAT THE CONVERGENCE OF LAND-BASED CASINO GAMING WITH INTERACTIVE GAMING ENTERTAINMENT WOULD CREATE NEW GROWTH OPPORTUNITIES FOR OUR CUSTOMERS AND FOR WMS.

alliances and partnerships, a comprehensive suite of digital interactive gaming content, products and services. With our advanced existing capabilities, which are a natural extension of our core competencies in developing player-appealing gaming content, we believe we are favorably positioned to help our customers benefit through the development of customized gaming experiences that will engage their existing patrons, attract new players and help them grow their businesses. Since our first steps more than 65 years ago as an innovative small pinball game developer and manufacturer, we have continually evolved and redefined our business model in order to optimize shareholder value.

Several years ago, we envisioned and anticipated the convergence of land-based casino entertainment with players' desires to access their favorite gaming content across the full spectrum of online, social, casual and mobile gaming channels. Importantly, we began formulating our strategies and developing leading solutions for our

customers to take advantage of these new, emerging distribution channels in a prudent manner. As a result of our anticipation of this convergence, we developed, acquired and now possess the appropriate experience and skills needed to help our customers prepare for this convergence in their businesses and thus meet their current and evolving needs with a flexible and comprehensive set of value-added products, managed services and end-to-end solutions.

Recently, just after our fiscal year-end, we combined all of our existing online, social, casual and mobile gaming products and services under one global brand umbrella, Williams Interactive. We believe this will enable us to further concentrate our efforts and increase our collective ability to leverage our operational and development initiatives to propel growth in these emerging distribution channels. Our President, Orrin Edidin, was named to the additional position of President and CEO of Williams Interactive. Orrin's organizational knowledge, broad management expertise, understanding of the dynamics of these new emerging distribution channels and his deep understanding of what our land-based casino operators need to maximize their benefit from iGaming opportunities make him the ideal leader to move our interactive initiatives forward for the benefit of our customers, their players and WMS.

Having strengthened our organization, realigned our product development and operational efforts to address our customers' current needs and their players' current behaviors and gained our momentum over

the past year, we are in an excellent position to further build our business. Reflecting this commitment to maintain the ongoing progress in our product sales and gaming operations, Ken Lochiatto, Executive Vice President of our parent company, was also named to the additional role of President and COO of WMS Gaming. Since joining us in February 2006, Ken has been instrumental in strengthening our processes to be more customer-centric, improving our revenues, operating margin and market share, and his contributions and leadership have been invaluable in driving our long-term growth.

As we look forward, our goals are straightforward, clearly defined and understood throughout the organization:

- **First:** Develop and introduce innovative, player-appealing games and new cabinets to grow our installed participation product base, improve our daily average revenue and further support our customers. We expect to continue to maintain particular emphasis on increasing the mix of wide-area progressive units and our proprietary *Adaptive Gaming*[®] technology units.
- **Second:** Develop and launch differentiated for-sale games and cabinets to garner increased ship share. We place extraordinary emphasis on creating value for customers—through creative gaming content, new cabinets and by providing world-class customer service.
- **Third:** Invest, develop and support the expansion and extension of our interactive products and services. We expect to aggressively leverage the

WMS 2012

\$194 million

invested in gaming

OPERATIONS, ACQUISITIONS AND INFRASTRUCTURE

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transition of our existing library of great gaming content into new distribution channels. While our primary focus during fiscal 2013 will be on further organic development, we will remain open to selective alliances, licensing opportunities and acquisitions that would reinforce our “best-of-breed” approach to bring the benefits of interactive gaming to our customers.

- **And Fourth:** Continue to enhance our margins through further success with our strategic sourcing initiatives and the pursuit of value-added projects in our continuous improvement efforts and work toward flawless execution. These initiatives are expected to generate greater effectiveness, provide organizational productivity to efficiently support additional global growth and deliver greater cost savings and returns on capital that will build stockholder value and fund additional profitable growth.

OUR GOALS ARE
STRAIGHTFORWARD,
CLEARLY DEFINED
AND UNDERSTOOD
THROUGHOUT WMS.

WMS 2012

\$157 million

generated by

CASH FLOW FROM OPERATING ACTIVITIES



WE WILL CONTINUE TO INVEST IN CREATING INTELLECTUAL PROPERTY, TECHNOLOGY AND TALENT TO BUILD PROFITABLE AND SUSTAINABLE LONG-TERM GROWTH AND STOCKHOLDER VALUE.

We undertake these four goals with a clear focus on enhancing long-term stockholder value and strengthening WMS for the future. As the gaming entertainment industry expands and transitions into a new world that transcends the in-casino experience to also allow players to enjoy their gaming entertainment at home or on their favorite mobile device, we must remain steadfast in our courageous commitment to continue to support investment in our core, in-casino products and to step up and invest for the longer-term in our interactive products and services. As President Ronald Reagan once stated, "The future doesn't belong to the faint-hearted; it belongs to the brave."

In closing, I would like to thank our Board of Directors for their counsel and support. Their shared vision and commitment to build and grow WMS into a truly world-class

company have been instrumental in our long-term growth and progress. In particular, I want to thank Lou Nicastro, who is stepping down from the Board later this year, for his guidance and insight gained through his more than 45 years of association with WMS and its predecessor companies. He will be dearly missed but never forgotten. We extend to him our warmest wishes for continued good health and happiness in life's journey. Lou's spirit and influence will live on within WMS for generations to come.

To you, our stockholders, we thank you for your continued support. We will continue to invest in the areas of intellectual property, technology and talent in order to build sustainable long-term profitable growth and stockholder value. We pledge to you our continued focus, unwavering commitment and total energy as we travel together on our Journey of Greatness.

Sincerely,

A handwritten signature in black ink, reading "Brian R. Gamache".

Brian R. Gamache
*Chairman of the Board and
Chief Executive Officer*