



F I S C A L

2000

ANNUAL REPORT

Mission Statement

To create the most entertaining products in the world and service our customers with an uncompromising passion for quality.

PASSION INNOVATION
TENACITY QUALITY INTEGRITY

Core Values

TEAMWORK: Our Guiding Principal

This report contains certain forward looking statements concerning future business conditions and the outlook for the Company based on currently available information that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in the forward looking statements as a result of certain risks and uncertainties, including, without limitation, the financial strength of the gaming industry, the expansion of legalized gaming into new markets and legislative and regulatory changes in existing gaming markets, the development, introduction and success of new games and new technologies and the ability to maintain the scheduling of such introductions, the ability of the Company to qualify for and maintain gaming licenses and approvals, and other risks more fully described under "Business-Risk Factors" in the Company's Annual Report on Form 10-K.

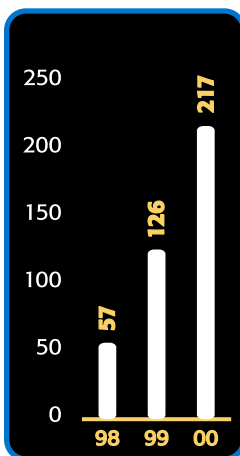
To Our Shareholders:

WMS Industries delivered outstanding financial results in fiscal 2000. New product introductions and innovation have been the foundation of our growth and success. This

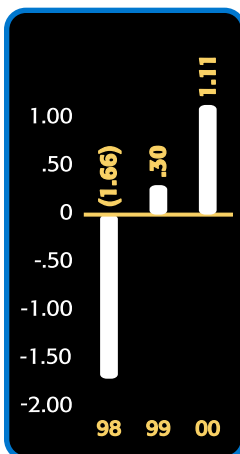
year we undertook a variety of initiatives to further strengthen WMS and its industry position, including streamlining our operations, appointing new management, offering our

products in new markets, and adopting a new marketing strategy and corporate identity. The future appears bright, as we expect to continue to benefit from these changes.

Revenues
(in millions)



Earnings (Loss) Per Share
from Continuing Operations



We began fiscal 2000 committed to expanding our market share, and we succeeded by creating new gaming concepts and updating existing products. These new games were widely accepted by casino players, leading to increased participation revenues and sales to our casino customers. Revenues from continuing operations increased by 72%, to \$217 million for fiscal 2000 compared with \$126 million in the prior year, due to an impressive 181% increase in revenues derived from gaming machine participation and lease arrangements and a 46% increase in revenues from gaming machine sales. Excluding the impact from the reversal of excess accruals related to settlement of litigation, income from continuing operations for fiscal 2000 increased to \$35 million, or \$1.11 per diluted share, compared to \$9 million, or \$0.30 per diluted share, in fiscal 1999. WMS enters fiscal 2001 with a strong balance sheet and a favorable industry environment where video gaming devices are commanding a growing share of new orders from casinos, and large new markets are opening up to us in California and internationally.

During fiscal 2000, we refreshed our award winning *MONOPOLY*®-themed gaming machines with two new themes — *Chairman of the Board*™ and *Movers & Shakers*™. The *MONOPOLY* games remain one of the industry's most popular themes, and by early fiscal 2001 our installed base of *MONOPOLY*-themed games exceeded 4,000 units, the second largest installed base for any participation game in the industry.

We also introduced a variety of new video-based games and an expanded roster of reel spinning games with themes such as *Money to Burn*™, *Perfect Game*™ and *Winning Bid*™, all of which feature high levels of player interactivity. In the middle of the year, we launched *Reel 'em In*® *Cast for Cash*™, a technologically enhanced, dual-screen version of one of our best selling products. It was an immediate success. These games garnered significant market penetration, generating strong financial results. Early in fiscal 2001, we announced a new series of participation games called *Puzzle Pays*™, with the first three games based on well-recognized brands — *JUMBLE*®, *SCRABBLE*® and *PICTIONARY*® — which

we licensed from third parties. Our growing product pipeline helps ensure our success in the future.

During fiscal 2000, our development and marketing talent undertook several key initiatives to expand our international presence. We established an international office in Barcelona, Spain to market gaming devices and provide product service outside of North America. We also formed an alliance with Stargames Ltd. of Australia whereby we will 'port' our best selling products onto gaming machines manufactured by Stargames for distribution throughout Australia, New Zealand and Papua New Guinea. Additionally, we agreed to supply video lottery terminals throughout the Slovak Republic on a revenue participation basis.

But not all of our new market opportunities are outside of North America. In June 2000, we began shipping video and reel-type slot machines and participation games to California Tribal casinos. The California shipments represent an important milestone in our goal of continued domestic expansion. Our ability to quickly establish significant market share supports our belief that the California market will ultimately be heavily video-focused, enabling us to further exploit the strength of the Company's product line. In addition, through an arrangement with Multimedia Games, Inc., we will enter the Tribal gaming market in Washington State early in fiscal 2001. With California, Washington and international jurisdictions as new markets, we have strong prospects to expand our worldwide market share and revenues during fiscal 2001 and beyond.

Our substantial improvement in operating results in fiscal 2000 is a testament to the strategic decision to focus solely on gaming products. After a long and rich history, we discontinued operating our pinball, cabinet and contract manufacturing businesses as the profitability of those segments had substantially declined. Clearly, focusing on what we do best — creating innovative gaming products that players find highly entertaining and casinos demand — will support our goal of generating higher revenues and a greater return on investment.

The cover of this annual report features our new corporate image and a new logo to be used throughout our operations. The new 'delta' logo implies change and innovation which is exemplified by WMS.

We recently announced that we will relocate our corporate headquarters and manufacturing operations to our Waukegan, Illinois facility by calendar year-end,

due to the continued increase in demand for our products. We will convert our main Chicago facility to a state-of-the-art technology and creative development campus for our rapidly growing product development staff.

Recently, the Company has undergone several important changes in executive management. Brian Gamache re-joined WMS as President and Chief Operating Officer in April. Brian previously headed up our former casino and hotel management business that was successfully spun-off to shareholders in 1997 and sold at a premium in 1998. Brian brings to WMS a broad range of management skills and the industry knowledge necessary to generate further earnings growth from a growing global customer base. We further strengthened the WMS senior management team when Scott Schweinfurth was named Executive Vice President, Chief Financial Officer and Treasurer in April and Orrin Edidin joined the Company as Executive Vice President, Secretary and General Counsel on a full time basis in May after splitting his time with a former subsidiary of WMS. Brian, Scott and Orrin are keenly focused on providing a full range of innovative and entertaining gaming products to drive profitability and enhance shareholder value.

Changes — both internal and external — have positioned WMS for continued growth. We enter fiscal 2001 with a clear vision of our market opportunities and the focus and resources — financial and managerial — to capitalize on those opportunities for the long-term. Our strong balance sheet allows us the flexibility to deploy funds to capitalize on the growing market for video gaming devices, to pursue strategic opportunities, to expand our product line and to further penetrate the domestic and international markets with our award-winning gaming products. We thank you for your continued support and confidence in our future.



Louis J. Nicastro
Chief Executive Officer and
Chairman of the Board
September 22, 2000

Introduction Fiscal 2000 saw the emergence of a new WMS Industries Inc. With a singular focus on serving the casino gaming and video lottery industry, WMS forged ahead, by developing

new entertaining gaming products and extending our track record as the industry's leading innovator. With a well-established record of product success, a portfolio of exciting new

products and high profile brand names in our development pipeline, plus continued market expansion opportunities both domestically and abroad, our outlook for Fiscal 2001 is very strong.

New Focus The implementation of new strategic initiatives transformed WMS into a company devoted solely to the design, manufacture and marketing of casino-style gaming devices and video lottery terminals. After incurring continuing losses and weak demand, we discontinued our pinball and cabinet making operations early in the fiscal year and we discontinued our contract manufacturing relationship with operations expected to cease effective September 30, 2000.



We set in motion a plan to relocate our corporate headquarters and manufacturing operations to our 236,000 square foot facility in Waukegan, Illinois, which is 30 miles north of our existing Chicago facilities. The move will enable us to expand our production capacity and consolidate our operations. Additionally, two leased regional warehouse and distribution centers will be combined into this modern facility. By mid-fiscal 2001, we will perform all of the manufacturing and regional warehousing of our video and reel spinning slot machines and video lottery terminals in Waukegan. The consolidation effectively and efficiently addresses potential manufacturing constraints at our Chicago facilities allowing us to seamlessly meet growing demand for our gaming devices. To ensure our ongoing leadership in the innovation of casino gaming devices, we will

convert our 130,000 square foot Chicago facility into a state-of-the-art, creative technology and game development campus where we will conduct all of our engineering, graphic design and game development functions.

New Management Team and Corporate Image With a clearly defined, singular focus on the casino gaming and video lottery industry, we recruited a new senior management team, equipped with a broad range of management skills and the industry knowledge necessary to generate further earnings growth. Led by President and Chief Operating Officer, Brian Gamache, our new leadership group brings extensive experience, creative vision and endless enthusiasm to the growth process. Scott Schweinfurth, Executive Vice President, Chief Financial Officer and Treasurer joined us near the end of the year and Orrin

Edidin, Executive Vice President, Secretary and General Counsel, became available to us on a full time basis.

To ensure broad awareness of our brands and products, we committed to an ongoing campaign to best present our products to our important worldwide constituents, which include casino customers, players, the investment community and the regulatory bodies which govern the industry. As a key element of this campaign, we recently introduced a new corporate logo to define our new focus. The new 'delta' logo signifies change and will appear throughout all of our print and electronic media and other collateral materials. Additionally, our web site, www.wmsgaming.com, will be dramatically improved in fiscal 2001 to be more user friendly and meaningful to investors and customers alike.



New Products Newly created base games, coupled with product extensions of established, well-known brands, propelled our unit sales and participation game placements to all-time highs in fiscal 2000.

Expansion of Video Product Line In August 1999, we released *Winning Bid™*, a multi-line, multi-coin video game with an auction theme which captured the interest of a broad range of players. When three gavel symbols line up on an active payline, the auction bonus round commences. The player then selects the auction item and a character to begin the bidding and wins a bonus of the final bid amount.

Both operators and players raved about the game. "WMS Gaming has another winner with *Winning Bid!* We installed the games and they've been filled with players ever since. WMS continues to provide highly innovative, entertaining games that are in the top-earners at Sunset. Thanks, WMS for making us look good!" stated Richard Fitzhugh of Stations Casinos. With earnings of 3 to 4 times house average, the game's performance in Nevada resulted in fast growing unit sales throughout North America.

The performance of *Winning Bid* served as a strong lead-in for the annual industry trade show, the World Gaming Congress & Expo in September 1999 in Las Vegas. With a recent hit, a line-up of exciting new games and yet another unique booth design, we maximized the opportunity to showcase top quality games to our customers.



Approved in October 1999, *Who Dunnit™* was the next multi-line, multi-coin video game to be released. With a theme based on a classic detective story, *Who Dunnit* provides in-depth, multi-layered bonus rounds that ushered in a new level of player interactivity. Once into the *Who Dunnit* bonus round, players can catch a thief and possibly an accomplice, and discover the thief's hideout, with every find awarded a different bonus.

At the gaming show, we also unveiled the extension of the game that started it all, *Reel 'em In®*, the most popular multi-line, multi-coin video game ever released in the United States. Initial reviews of *Reel 'em In*, *Cast for Cash™* were outstanding, and the game served as the centerpiece of the WMS display and inspiration for the booth's underwater theme. We took significant orders during the show, and the game was approved in Nevada in January. *Cast for Cash* has the same fishing theme as the original *Reel 'em In* with new bonusing features and a new game platform. Our proprietary dual-screen technology introduced a second full-color LCD display in the top box of the game. As the fisherman in the top screen casts his line into the water, the hook and bait appear underwater on the screen below. With the addition of the second screen, a whole new set of features was created. Not only did *Cast for Cash* offer more bonusing, it offered a different level of interactivity for the player translating to more entertainment, more time spent on the device and, for operators, more earnings — characteristics which have become the WMS hallmark.

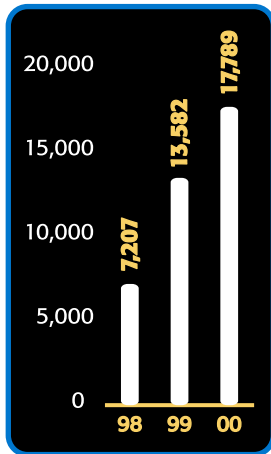
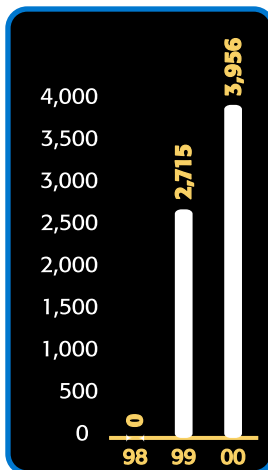
The games were installed in casinos throughout Nevada. The player reaction echoed the operators' responses from the World Gaming Congress — *Cast for Cash* successfully captured the key game play elements that made *Reel 'em In* a hit while bringing new excitement to the player with new bonusing features and dual-screen technology. With initial earnings of four times house average, subsequent sales in other jurisdictions were brisk, and *Cast for Cash* became a whopper of a hit.

The success of *Reel 'em In*, *Cast for Cash* further reinforced our proficiency in franchise building and brand management. Our team of game designers brings focus and commitment to the process of designing great games. That dedication is reflected in the success of top-earning, innovative and entertaining hits.

We released two more multi-line, multi-coin video products before the conclusion of Fiscal 2000; *Money to Burn™* and *Perfect Game™*. *Money to Burn* features the instantly recognized 70's pop hit



Units Sales

MONOPOLY Units
at June 30,

"Fire" and a bundle of colorful characters. *Perfect Game* has a bowling theme and features a comical team of bowlers. *Money to Burn* and *Perfect Game* were placed in casinos beginning in June 2000. These additional titles added to the extensive library of top-earning video titles and contributed the highest gaming unit sales in our history.

Participation Games We released our first *MONOPOLY*®-themed gaming machines in early fiscal 1999. Since then, the games have established themselves as staples on casino floors around the country based on their immense player popularity. One industry analyst noted, "The extraordinary appeal of WMS' *MONOPOLY* games allows them to earn over three times that of the average slot machine. Since WMS collects a revenue participation or lease payment for each game, *MONOPOLY* should generate high-margin, recurring revenues for WMS Industries." This prediction proved true, and we are committed to broadly expanding our share of the high-margin participation game market.

At September's trade show, we premiered the latest updates to the *MONOPOLY* product line. A new version of *Advance to Boardwalk*™ with a bigger, progressive jackpot and a new nine-line version of *Reel Estate*® were just two of the new game updates offered. Additionally, one new game theme, *Chairman of the Board*™ in both reel-spinning and video versions was also unveiled. The strategy of regularly re-vitalizing the product with new themes keeps *MONOPOLY* in demand and helps us maintain a broad and growing installed base for this important franchise.

In April 2000, we premiered another new *MONOPOLY* game theme in Nevada, *Movers & Shakers*™, the sixth game in the series of the successful *MONOPOLY* brand product line. *Movers & Shakers* features a bold new color scheme and new offerings — including bonus awards for certain dice combinations and a race between the *MONOPOLY* game tokens — while maintaining the feel of the classic board game. After initial installations and promising reviews, orders for *Movers & Shakers* were strong.



The continued expansion of the *MONOPOLY* brand product and its wide player acceptance resulted in more than 4,000 of these recurring revenue-generating units having been installed across North America by early fiscal 2001. We intend to continue the growth of *MONOPOLY* brand products in the United States and Canada. In early fiscal 2001, we began installs in Canada and the newly opened



California gaming jurisdiction. In addition, we anticipate introducing *MONOPOLY*-themed gaming machines into the Australian market in summer 2001.

The strength of the product line is evident with both players and operators. In May 2000, the Tropicana Casino Resort in Atlantic City unveiled the world's biggest illustration of a slot machine. With hundreds of different game themes and manufacturers from which to choose, the Tropicana organization chose our *MONOPOLY* series *Chairman of the Board* reel-spinning slot machine for their 20-story building wrap.

In July 2000, *Casino Player*® released the results of their Annual Readers' Poll and players voted *MONOPOLY* game the "Best New Slot" across North America.



Having achieved great success with our first line of participation games, we have created a second line of highly themed, innovative participation games based on well-known brands. The *Puzzle Pays*™ series, announced in July 2000, is a series of games each with a puzzle theme at its core. The first three games for the series are based on well-recognized licensed brands - *JUMBLE*®, *SCRABBLE*® and *PICTIONARY*®. Known to newspaper readers, crossword and puzzle fans as "that scrambled word game," *JUMBLE* is featured daily in more than 600 newspapers reaching more than 70 million readers. We premiered our first version of *JUMBLE* in Nevada casinos in September 2000, and anticipate the debut in other jurisdictions over the subsequent months.

We announced in August 2000 that we had entered into a licensing agreement with Hasbro, Inc. whereby we secured the exclusive rights in the United States and Canada to develop, manufacture and market gaming





machines based on the world-famous board game, *SCRABBLE*. Created in the 1930's, the game we now know as *SCRABBLE* combines the vocabulary skills of crossword puzzles and anagrams with an element of chance. More than 60 years later, the *SCRABBLE* game remains one of the most popular board games available from Hasbro today.

We continued to extend the new *Puzzle Pays* series, announcing that we have entered into a licensing agreement with Pictionary Incorporated for the exclusive worldwide rights to develop, manufacture and market gaming machines based on the world-famous board game, *PICTIONARY*. The *PICTIONARY* board game, created in 1985, is a classic "game of quick draw"®, challenging players to get their team to guess a secret word. One "picturist" has just sixty seconds to draw a picture of the secret word while teammates shout out their guesses. After 15 years, more than 40 million board games have been sold.

The releases of *SCRABBLE* and *PICTIONARY* are anticipated in Spring 2001 and Summer 2001, respectively.

New Markets In fiscal 2000, we defined our domestic and international expansion strategy. We achieved significant progress in our international expansion efforts by entering into a video supply contract for the Slovak Republic, opening our first international office in Barcelona, Spain and forming a strategic alliance with an Australian gaming company, Stargames Ltd. Domestically, we positioned WMS to take advantage of two new gaming jurisdictions: California and Washington.

In the December 1999 quarter, we entered into an agreement with the Slovenske Loterie A.S. whereby we agreed to provide at least 2,000 video lottery terminals over a five-year period. Slovenske Loterie distributes, services and manages the machines in various lottery locations throughout the Slovak Republic, and we share in the daily revenues generated by the gaming devices.

In January 2000, we formed WMS Gaming International, S.L., and appointed a well-known international gaming executive to direct our sales and service functions from our Barcelona, Spain office. This office will head up our efforts to market electronic gaming devices and provide product service in all markets outside of North America, Australia and New Zealand.

In February 2000, we entered into an exclusive agreement with Stargames



whereby they will manufacture and sell our multi-line, multi-coin video games in Australia, New Zealand and Papua New Guinea. The agreement is

strategically important to WMS as it broadens our international presence in regions which have a high demand for video gaming products.

We made further progress in our domestic expansion plan by receiving approval to sell products to the newly opened California Native American gaming market and signing a licensing agreement with Multimedia Games, Inc. to sell our game themes in Washington State.

We have quickly developed market share in the newly opened California market. In addition, a number of California casino customers have scheduled installations of WMS products early in the first quarter of fiscal 2001. The orders include a mix of our popular video and reel-spinning products such as *Reel 'em In*, *Winning Bid* and *Jackpot Party*®. In addition to the games noted above, we will place our highly popular *MONOPOLY* brand participation products in California and, later in fiscal 2001, *Jumble*.

A new licensing agreement with Multimedia Games provides us an entrée into another video gaming state by utilizing Multimedia's approved game platform and our entertaining game themes. *Reel 'em In* and *Filthy Rich*™ will be our first two multi-line, multi-coin videos launched in Washington. Additional game themes are being developed by Multimedia. This arrangement allows us to further promote and place our products while minimizing the cost of entry into this new market.



Forward Momentum The outlook for continued growth in Fiscal 2001 is very strong. We will continue to build on the success of established games such as *Reel 'em In*, *Cast for Cash* and *MONOPOLY*-themed gaming devices, plus develop new games such as the *Puzzle Pays* series. We believe that efforts to expand market penetration domestically and internationally will yield additional revenue growth. With new leadership, clear focus, better use of our facilities and a new corporate image and logo, we believe the future looks bright.

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Financial
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(In thousands, except per share amounts)

Selected Statement of Operations Data - Year Ended June 30,	2000	1999⁽¹⁾	1998⁽¹⁾	1997⁽¹⁾	1996⁽¹⁾
Revenues	\$216,676	\$125,956	\$ 56,788	\$ 33,613	\$ 37,523
Operating income (loss)	67,984	10,678	(71,250)	(76,319)	(12,614)
Income (loss) from continuing operations before income taxes	71,438	14,203	(66,840)	(74,101)	(12,215)
Provision (benefit) for income taxes	27,016	5,397	(22,891)	(29,123)	(4,816)
Income (loss) from continuing operations	44,422⁽²⁾	8,806 ⁽³⁾	(43,949) ⁽⁴⁾	(44,978) ⁽⁵⁾	(7,399) ⁽⁶⁾
Discontinued operations, net of applicable income taxes:					
Pinball and cabinets segment					
Loss from discontinued operations—net	(13,539)	(4,332)	(5,103)	(1,819)	(10,353)
Contract manufacturing segment					
Income (loss) from discontinued operations—net	(1,077)	779	228	—	—
Video games segment					
Income from discontinued operations—net	—	—	26,746	35,804	25,229
Gain on initial public offering of subsidiary	—	—	—	47,771	—
Hotel and casino segment					
Income (loss) from discontinued operations—net	—	—	—	3,917	(2,938)
Net income (loss)	\$ 29,806	\$ 5,253	\$(22,078)	\$ 40,695	\$ 4,539
Basic earnings per share of common stock:					
Income (loss) from continuing operations	\$ 1.45⁽²⁾	\$ 0.30 ⁽³⁾	\$ (1.66) ⁽⁴⁾	\$ (1.85) ⁽⁵⁾	\$ (0.31) ⁽⁶⁾
Net income (loss)	\$ 0.97	\$ 0.18	\$ (0.84)	\$ 1.67	\$ 0.19
Basic shares outstanding	30,615	29,308	26,446	24,334	24,122
Diluted earnings per share of common stock:					
Income (loss) from continuing operations	\$ 1.42⁽²⁾	\$ 0.30 ⁽³⁾	\$ (1.66) ⁽⁴⁾	\$ (1.85) ⁽⁵⁾	\$ (0.31) ⁽⁶⁾
Net income (loss)	\$ 0.95	\$ 0.18	\$ (0.84)	\$ 1.67	\$ 0.19
Diluted shares outstanding	31,322	29,511	26,446	24,334	24,122
Selected Balance Sheet Data - As of June 30,					
Total assets	\$239,030	\$238,079	\$207,522	\$306,915	\$295,071
Working capital	149,966	117,369	99,132	86,176	143,372
Long-term debt	—	—	—	57,500	57,500
Stockholders' equity	205,420	172,079	155,291	196,000	210,033

⁽¹⁾ All prior year selected financial data are restated to reflect the pinball and cabinets segment and contract manufacturing segment as discontinued operations. See Notes 1 and 3 in Notes to Consolidated Financial Statements.

⁽²⁾ Income from continuing operations for fiscal 2000 includes an after-tax reversal of an excess accrual of \$9.7 million, \$0.31 per diluted share, related to patent litigation, and an after-tax charge of \$1.2 million, \$0.04 per diluted share, from the Midway Games Inc. spin-off related adjustment to the WMS common stock purchase options outstanding at the date of the spin-off that subsequently vested.

⁽³⁾ Income from continuing operations for fiscal 1999 includes an after-tax charge of \$1.9 million, \$0.06 per share, from the Midway Games Inc. spin-off related adjustment to the WMS common stock purchase options outstanding at the date of the spin-off that subsequently vested.

⁽⁴⁾ Loss from continuing operations for fiscal 1998 includes an after-tax charge of \$39.9 million, \$1.51 per share, from the Midway Games Inc. spin-off related adjustment to the WMS common stock purchase options outstanding at the date of the spin-off.

⁽⁵⁾ Loss from continuing operations for fiscal 1997 includes an after-tax charge of \$37.4 million, \$1.54 per share, related to patent litigation.

⁽⁶⁾ Loss from continuing operations for fiscal 1996 includes additional after-tax provisions for gaming inventory obsolescence of \$1.3 million, \$0.05 per share.

Fiscal 2000 Significant Events and Trends In October 1999, we announced that we had decided to close our pinball and cabinets segment as part of a plan to focus on our gaming segment. We expect to complete the windup of this segment by September 30, 2000. In the first quarter, we recorded a \$21.3 million pre-tax loss on disposal, including cash expenses of \$10.1 million, for projected operating losses through the disposal date, severance pay and shut down expenses. We do not anticipate that this discontinued operation will have a material effect on our liquidity or operations in future periods. The loss on disposal included \$11.2 million in non-cash losses from write-downs of receivables, inventory, plant and equipment to net realizable value. Tax benefits related to the loss on disposal were estimated to be \$8.1 million. The exact amount of the proceeds received and the loss ultimately recorded will depend upon several factors over the course of the shut down period and at the date the sale of the remaining assets is consummated. Our consolidated financial statements have been restated to reflect the pinball and cabinets manufacturing segment as a discontinued operation.

In December 1999, we announced that we had settled our litigation with International Game Technology regarding their Telnaes patent. We made a tax-deductible payment of \$27.0 million to them and agreed to split evenly with them the \$3.4 million held in an escrow account pending resolution of this matter. Because we had previously recorded a reserve of \$38.5 million for this litigation, we recognized pre-tax income of \$13.2 million from the reversal of the excess accrual. We also recognized \$2.4 million of pretax income in the June 2000 quarter primarily due to a recovery from our original lawyer's insurance related to the litigation. This resulted in an increase in income from continuing operations, on an after-tax basis, of \$9.7 million, or \$0.31 per diluted share.

In August 2000, we announced that the operations of our contract manufacturing segment were being discontinued. We expect to complete the windup of this segment by mid-fiscal 2001. In the fourth quarter of fiscal 2000, we recorded a \$2.8 million pre-tax loss on disposal, including cash expenses of \$1.2 million, for severance pay and shut down expenses. We do not anticipate that this discontinued operation will have a material effect on our liquidity or operations in future periods. The loss on disposal included about \$1.6 million in non-cash losses from write-downs of receivables, inventory, plant and equipment to net realizable value. Tax benefits related to the loss on disposal were estimated to be \$1.1 million. The exact amount of the proceeds received and the loss ultimately recorded will depend upon several factors over the course of the shut down period and at the date the sale of the remaining assets is consummated. Our

consolidated financial statements have been restated to reflect the contract manufacturing segment as a discontinued operation.

Liquidity and Capital Resources We believe that cash and cash equivalents and short term investments of \$80.7 million at June 30, 2000, along with the \$25.0 million bank revolving line of credit that extends to August 1, 2001, the \$2.0 million bank revolving line of credit that extends to August 1, 2002 and cash flow from operations will be adequate to fund the anticipated level of capital expenditures, cash invested in gaming machines on participation or lease and increases in the levels of inventories and receivables required in the operation of our business.

Cash provided by operating activities before changes in operating assets and liabilities was \$31.4 million for fiscal 2000 as compared with cash provided of \$21.6 million for fiscal 1999. The increase in cash provided by operating activities in fiscal 2000, compared to fiscal 1999, was due to increased net income, net of the effects of non-cash charges and credits. This was partially offset by the litigation settlement payment made in fiscal 2000.

The changes in operating assets and liabilities resulted in \$3.8 million of cash inflow during fiscal 2000 compared with a cash outflow of \$0.1 million during fiscal 1999. Cash inflow in fiscal 2000 was primarily due to a decrease in inventories and income taxes receivable, an increase in income taxes payable on continuing operations and increases in accounts payable and accruals, offset, in part, by an increase in accounts receivable from the comparable balances at June 30, 1999. The cash outflow for fiscal 1999 was primarily due to an increase in receivables and inventory, offset, in part, by a reduction in income tax receivables and an increase in accounts payable and accruals from the comparable balances at June 30, 1998.

Cash used by investing activities was \$72.7 million for fiscal 2000 compared with cash used of \$3.3 million for fiscal 1999. Cash used for the purchase of property, plant and equipment during fiscal 2000 was \$3.1 million compared with \$9.1 million for fiscal 1999. Cash used for additions to gaming machines on participation or lease was \$8.9 million in fiscal 2000 compared with \$20.2 million in fiscal 1999. Net cash of \$60.8 million was used for the purchase of short-term investments during fiscal 2000 compared with \$26.0 million provided from the sale of short-term investments in fiscal 1999.

Cash provided by financing activities, which was primarily from common stock option proceeds, was \$1.6 million for fiscal 2000 compared with \$7.9 million for fiscal 1999.

Results of Operations

Fiscal 2000 Compared with Fiscal 1999

Consolidated revenues increased to \$216.7 million, or 72.0%, in fiscal 2000 from \$126.0 million in fiscal 1999. Total revenue increased \$90.7 million; \$47.2 million from increased machine sales and \$43.5 million from increased participation and lease revenue. The increase in revenue from machine sales results primarily from the sale of 17,789 video and reel type gaming devices in fiscal 2000 compared to 13,582 gaming devices in fiscal 1999, due to the continued market acceptance of new models introduced over the last twelve months. In addition, the average sales price increased from \$7,232 in fiscal 1999 to \$7,904 in fiscal 2000 primarily due to a price increase implemented in August 1999 and a change in product mix to sales of higher priced products.

The increase in participation and lease revenue was from an increase in the installed base of *Monopoly*-themed gaming devices which were introduced in fiscal 1999 and had a total of 2,715 units installed at June 30, 1999 and 3,956 units installed at June 30, 2000. Average net win per day for *Monopoly*-themed machines decreased from \$50.77 in fiscal 1999 to \$47.32 in fiscal 2000 due to an expansion of the installed base to lower performing locations in gaming jurisdictions where we participate in the net win of the location.

Consolidated gross profit for fiscal 2000 rose to \$121.1 million, or 117.5%, from \$55.7 million in fiscal 1999. The gross margin percentage increased from 44.2% in fiscal 1999 to 55.9% in fiscal 2000. The increase in gross margin resulted from higher average sales prices, a greater percentage of higher margin participation and lease revenues to total revenues in the June 2000 fiscal year, the impact of higher utilization of our manufacturing facility and lower material costs.

Research and development expenses increased during fiscal 2000 to \$11.7 million from \$8.7 million in the prior year as we continue to invest in enhancing our product pipeline and product platform. The increase is due to higher engineering expenditures, including costs to adapt our games for distribution to international markets. During fiscal 2000, we introduced six new games for sale and two new versions of our *Monopoly* participation

games. Research and development expenses in fiscal 2000 also were incurred for a new participation game, *Jumble*, which was introduced in the first quarter of fiscal 2001. During fiscal 1999, we introduced seven new games for sale and the first four versions of our *Monopoly* participation games.

Selling and administrative expenses increased 49.1% from \$27.3 million in fiscal 1999 to \$40.8 million in fiscal 2000 as we increased our cost structure to support our 72.0% revenue growth. The increase in expenses included a higher number of sales and administrative staff and expenses associated with opening our international sales office in Barcelona, Spain.

Depreciation and amortization, which includes amortization of gaming machines under participation and lease, increased during fiscal 2000 to \$14.3 million from \$5.9 million in the prior year due to the increase in the installed base of *Monopoly* machines. The average installed base was 3,366 units for fiscal 2000, compared to 895 units for fiscal 1999.

Operating income was \$68.0 million in fiscal 2000, compared to operating income of \$10.7 million in fiscal 1999. The financial results of fiscal 2000 reflect a one-time pre-tax gain of \$15.6 million from the reversal of the excess accrual related to the settlement of litigation. The balance of the increase was a result of higher revenues and margins, partially offset by the increases in research and development, depreciation and amortization and selling and administrative expenses.

The provision for income taxes increased \$21.6 million, to \$27.0 million in fiscal 2000 from \$5.4 million in fiscal 1999. The increase was due primarily to higher pre-tax income. The effective tax rate was 37.8% in fiscal 2000 compared to 38.0% in fiscal 1999 due to a lower effective state tax rate in fiscal 2000.

Income from continuing operations was \$44.4 million, or \$1.42 per diluted share, in fiscal 2000, compared to income from continuing operations of \$8.8 million, or \$0.30 per diluted share, in fiscal 1999. The financial results of fiscal 2000 reflect a one-time pre-tax gain of \$15.6 million from the reversal of the excess accrual related to the settlement of litigation, resulting in an increase in income from continuing operations of \$9.7 million, or

\$0.31 per diluted share. The balance of the increase was a result of higher revenues and margins, partially offset by the increases in research and development, depreciation and amortization, selling and administrative expenses and income tax expense.

Net income, which includes continuing operations and discontinued operations in fiscal 2000 and 1999, was \$29.8 million, or \$0.95 per diluted share, for fiscal 2000 compared to net income of \$5.3 million, or \$0.18 per diluted share, for fiscal 1999. Spin-off related adjustments to previously outstanding WMS stock options that subsequently vested reduced net income for fiscal 2000 and 1999 by \$1.2 million and \$1.9 million respectively, or \$0.04 and \$0.06 per diluted share, respectively.

Fiscal 1999 Compared with Fiscal 1998

Consolidated revenues increased to \$126.0 million, or 121.8%, in fiscal 1999 from \$56.8 million in fiscal 1998. Total revenue increased \$69.2 million; \$53.1 million from increased machine sales and \$16.1 million from increased participation and lease revenue. The increase in revenues from machine sales results primarily from the sale of 13,582 video and reel type gaming devices in fiscal 1999 compared to 7,207 gaming devices in fiscal 1998, because of the continued market acceptance of new models introduced over that twelve month period. In addition the average sales price increased from \$6,703 in fiscal 1998 to \$7,232 in fiscal 1999 primarily due to a price increase implemented in August 1998.

The increase in participation and lease revenue was due to *Monopoly*-themed gaming devices which were introduced in the second quarter of fiscal 1999 and had a total of 2,715 units installed at June 30, 1999. Average net win per day for *Monopoly*-themed machines was \$50.77 in fiscal 1999.

Consolidated gross profit for fiscal 1999 rose to \$55.7 million, or 187.8%, from \$19.3 million in fiscal 1998. The gross margin percentage increased from 34.1% in fiscal 1998 to 44.2% in fiscal 1999. The increase in gross margin resulted from higher average sales prices and a greater percentage of higher margin participation and lease revenues to total revenues in fiscal 1999.

Research and development expenses increased during fiscal 1999 to \$8.7 million from \$7.8 million in the prior year as we continued to invest in enhancing our product pipeline and product platform. During fiscal 1999, we introduced seven new games for sale and the first four versions of our *Monopoly* participation games.

Selling and administrative expenses increased from \$20.4 million in fiscal 1998 to \$27.3 million in fiscal 1999 as we increased our cost structure to support revenue growth.

Depreciation and amortization, which includes amortization of gaming machines under participation and lease, increased during fiscal 1999 to \$5.9 million from \$2.5 million in the prior year due to the increase in the installed base of *Monopoly* machines. The average installed base was 895 units for fiscal 1999, while we had no games installed during fiscal 1998.

Operating income was \$10.7 million in fiscal 1999, compared to an operating loss of \$71.3 million in fiscal 1998. The financial results of fiscal 1998 reflect a one-time charge of \$59.9 million from the adjustment to common stock options as a result of the Midway spinoff. The balance of the increase in fiscal 1999 operating income was a result of higher revenues and margins, partially offset by the increases in research and development, depreciation and amortization and selling and administrative expenses.

The provision for income taxes increased to \$5.4 million in fiscal 1999, compared to a tax benefit of \$22.9 million in fiscal 1998. The tax expense for fiscal 1999 was based on pre-tax income of \$14.2 million, resulting in a 38% effective tax rate. The tax benefit for fiscal 1998 was based on a pre-tax loss of \$66.8 million, resulting in a 34.2 % effective rate. The increase in the effective tax rate was due to higher state taxes, partially offset by the dividend received deduction on our investment income.

Income from continuing operations was \$8.8 million, or \$0.30 per diluted share, in fiscal 1999, compared to a loss from continuing operations of \$43.9 million, or \$1.66 per diluted share, in fiscal 1998. The increase was mainly a result of the impact of the stock option adjustment described above in fiscal 1998. The balance of the increase was a result of higher revenues and margins, partially offset by the increases in research and development, depreciation and amortization and selling and administrative expenses in fiscal 1999.

Net income, which includes continuing operations and discontinued operations in fiscal 1999 and 1998, was \$5.3 million, or \$0.18 per diluted share, for fiscal 1999 compared to a net loss of \$22.1 million, or \$0.84 per diluted share, for fiscal 1998. Spin-off related adjustments to previously outstanding WMS stock options that subsequently vested reduced net income for fiscal 1999 by \$1.9 million, or \$0.06 per diluted share and \$39.9 million, or \$1.51 per diluted share for fiscal 1998.

Impact of Inflation During the past three years, the general level of inflation affecting us has been relatively low. Our ability to pass on future cost increases in the form of higher sales prices will continue to be dependent on the prevailing competitive environment and the acceptance of our products in the marketplace.

Our common stock, \$.50 par value, is traded publicly on the New York Stock Exchange under the symbol "WMS". The following table shows the high and low sales prices of our common stock for the two most recent fiscal years, as reported on the NYSE:

	High	Low
Fiscal Year Ended June 30, 1999		
First Quarter	8 ¹³ / ₁₆	3 ¹ / ₂
Second Quarter	10 ³ / ₈	5
Third Quarter	9 ⁷ / ₈	6 ¹⁵ / ₁₆
Fourth Quarter	17	7 ¹ / ₂
Fiscal Year Ended June 30, 2000		
First Quarter	16 ¹³ / ₁₆	10 ⁷ / ₈
Second Quarter	13 ⁹ / ₁₆	10 ³ / ₈
Third Quarter	16	9 ³ / ₄
Fourth Quarter	15 ⁷ / ₁₆	7 ³ / ₄

No cash dividends were declared or paid during fiscal 2000 or 1999. The payment of future cash dividends will depend upon, among other things, our earnings, anticipated expansion and capital requirements and financial condition.

At September 15, 2000, there were approximately 1,100 holders of record of our common stock.

{ REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
WMS Industries Inc.

We have audited the accompanying consolidated balance sheets of WMS Industries Inc. and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting prin-

ciples used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of WMS Industries Inc. and subsidiaries at June 30, 2000 and 1999, and the consolidated results of their operations and cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Chicago, Illinois
August 10, 2000

(In thousands, except share amounts)

June 30,	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,869	\$ 58,669
Short-term investments	60,800	—
	80,669	58,669
Receivables, net of allowances of \$3,592 in 2000 and \$2,883 in 1999	45,190	29,744
Notes receivable, current portion	9,076	6,561
Income tax receivable	—	3,257
Inventories		
Raw materials and work-in-progress	10,152	11,452
Finished goods	22,766	24,392
	32,918	35,844
Assets of discontinued operations	5,246	30,439
Deferred income taxes	9,279	17,595
Other current assets	1,198	635
Total current assets	183,576	182,744
Gaming machines on participation or lease, net	16,809	19,731
Property, plant and equipment, net	30,465	31,484
Other assets	8,180	4,120
Total assets	\$239,030	\$238,079
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,352	\$ 7,042
Accrued compensation and related benefits	3,735	2,747
Income taxes payable	2,956	—
Accrued liability related to patent litigation	—	38,543
Liabilities of discontinued operations	8,242	12,053
Other accrued liabilities	10,325	4,990
Total current liabilities	33,610	65,375
Deferred income taxes	—	625
Stockholders' equity:		
Preferred stock (5,000,000 shares authorized, none issued)	—	—
Common stock (issued 30,920,042 shares in 2000 and 30,428,621 shares in 1999)	15,460	15,214
Additional paid-in capital	184,278	180,989
Retained earnings (accumulated deficit)	6,064	(23,742)
Treasury stock, at cost (77,312 shares in 2000 and 1999)	(382)	(382)
Total stockholders' equity	205,420	172,079
Total liabilities and stockholders' equity	\$239,030	\$238,079

See notes to consolidated financial statements.

(In thousands, except per share amounts)

Years ended June 30,	2000	1999	1998
Revenues			
Machine sales	\$149,080	\$101,895	\$ 48,820
Participation and lease	67,596	24,061	7,968
Total revenues	216,676	125,956	56,788
Costs and expenses			
Cost of sales	87,264	67,748	36,470
Cost of participation and lease revenue	8,342	2,547	981
Research and development	11,658	8,665	7,803
Selling and administrative	40,751	27,340	20,422
Depreciation and amortization	14,346	5,941	2,472
Adjustment to common stock options	1,962	3,037	59,890
Reversal of excess accrual due to settlement of litigation	(15,631)	—	—
Total costs and expenses	148,692	115,278	128,038
Operating income (loss)	67,984	10,678	(71,250)
Interest and other income	3,454	3,525	4,410
Income (loss) from continuing operations before income taxes	71,438	14,203	(66,840)
Provision (benefit) for income taxes	27,016	5,397	(22,891)
Income (loss) from continuing operations	44,422	8,806	(43,949)
Discontinued operations, net of applicable income taxes:			
Pinball and cabinets segment			
Loss from discontinued operations	(469)	(4,332)	(5,103)
Costs related to discontinuance	(13,070)	—	—
Contract manufacturing segment			
Income from discontinued operations	598	779	228
Costs related to discontinuance	(1,675)	—	—
Video games segment			
Income from discontinued operations	—	—	28,302
Costs related to discontinuance	—	—	(1,556)
Net income (loss)	\$ 29,806	\$ 5,253	\$(22,078)
Basic per share of common stock:			
Income (loss) from continuing operations	\$ 1.45	\$ 0.30	\$ (1.66)
Net income (loss)	\$ 0.97	\$ 0.18	\$ (0.84)
Diluted per share of common stock:			
Income (loss) from continuing operations	\$ 1.42	\$ 0.30	\$ (1.66)
Net income (loss)	\$ 0.95	\$ 0.18	\$ (0.84)
Average number of shares outstanding—basic	30,615	29,308	26,446
Average number of shares outstanding—diluted	31,322	29,511	26,446

See notes to consolidated financial statements.

(In thousands, except share amounts)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock, at cost	Unrealized holding loss	Total stockholders' equity
Balance as of June 30, 1997	\$12,135	\$ 84,673	\$ 112,098	\$ (148)	\$(12,758)	\$ 196,000
Net loss for the year ended June 30, 1998	—	—	(22,078)	—	—	(22,078)
Decrease in unrealized loss on non-current investment in marketable equity securities	—	—	—	—	12,758	12,758
Comprehensive loss						(9,320)
Issuance of 758,385 shares of common stock through exercise of stock options	379	13,954	—	—	—	14,333
Issuance of 2,488,855 shares of common stock in conversion of subordinated debentures	1,244	55,090	—	—	—	56,334
Issuance of 515,360 shares of common stock relating to adjustment of stock options	258	14,717	—	—	—	14,975
Tax benefit from common stock options	—	1,984	—	—	—	1,984
Distribution of subsidiary as a tax-free dividend	—	—	(119,015)	—	—	(119,015)
Balance as of June 30, 1998	14,016	170,418	(28,995)	(148)	—	155,291
Net income for the year ended June 30, 1999	—	—	5,253	—	—	5,253
Issuance of 2,395,855 shares of common stock through exercise of stock options	1,198	6,893	—	—	—	8,091
Tax benefit from common stock options	—	3,678	—	—	—	3,678
Received 25,000 treasury shares in lieu of cash from exercise of stock options	—	—	—	(234)	—	(234)
Balance as of June 30, 1999	15,214	180,989	(23,742)	(382)	—	172,079
Net income for the year ended June 30, 2000	—	—	29,806	—	—	29,806
Issuance of 491,421 shares of common stock through exercise of stock options	246	1,333	—	—	—	1,579
Tax benefit from common stock options	—	1,956	—	—	—	1,956
Balance as of June 30, 2000	\$15,460	\$184,278	\$ 6,064	\$ (382)	\$ —	\$ 205,420

See notes to consolidated financial statements.

(In thousands)

Years ended June 30,	2000	1999	1998
Cash Flows From Operating Activities			
Net income (loss)	\$ 29,806	\$ 5,253	\$(22,078)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Discontinued operations:			
Loss from pinball and cabinets segment	469	4,332	5,103
Income from contract manufacturing segment	(598)	(779)	(228)
Income from video games segment	—	—	(28,302)
Costs related to discontinuance	14,745	—	1,556
Gain on sale of marketable equity securities	—	—	(859)
Depreciation and amortization	14,346	5,941	2,472
Provision for bad debts	1,943	2,979	1,534
Common stock issued in common stock option adjustment	—	—	14,975
Reversal of excess accrual due to settlement of litigation	(15,631)	—	—
Payment in settlement of litigation	(27,000)	—	—
Deferred income taxes	11,376	147	3,098
Tax benefit from exercise of common stock options	1,956	3,678	1,984
Increase (decrease) resulting from changes in operating assets and liabilities:			
Receivables	(18,529)	(14,011)	(4,915)
Income taxes	10,422	6,857	(10,114)
Inventories	4,022	(5,375)	(11,237)
Other current assets	(563)	(207)	205
Other assets	(808)	2,854	2,800
Accounts payable and accruals	9,250	9,826	(1,241)
Net cash provided (used) by operating activities	35,206	21,495	(45,247)
Cash Flows From Investing Activities			
Purchase of property, plant and equipment	(3,079)	(9,140)	(1,877)
Additions to gaming machines on participation or lease	(8,860)	(20,201)	(305)
Net change in short-term investments	(60,800)	26,000	44,000
Proceeds from sale of marketable equity securities	—	—	28,617
Net cash provided (used) by investing activities	(72,739)	(3,341)	70,435
Cash Flows From Financing Activities			
Cash received on exercise of stock options	1,579	7,857	14,333
Redemption of long-term debt	—	—	(178)
Net cash provided by financing activities	1,579	7,857	14,155
Cash Flows From Discontinued Operations			
Pinball and cabinets segment	(5,073)	(5,904)	(384)
Contract manufacturing segment	2,227	1,619	431
Video games segment	—	—	(4,300)
Net cash used by discontinued operations	(2,846)	(4,285)	(4,253)
Increase (decrease) in cash and cash equivalents	(38,800)	21,726	35,090
Cash and cash equivalents at beginning of year	58,669	36,943	1,853
Cash and cash equivalents at end of year	\$ 19,869	\$ 58,669	\$ 36,943

See notes to consolidated financial statements.

Note 1: Business Overview WMS Industries Inc. ("WMS") is now engaged in one business segment: the design, manufacture and marketing of slot machines (video and reel type) and video lottery terminals. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Such preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

On April 6, 1998, WMS completed a spin-off of its 86.8% ownership interest in Midway Games Inc. ("Midway") consisting of 33,400,000 shares of Midway common stock, to the WMS stockholders. The activities of Midway prior to its spin-off, which was the video game segment of WMS, are shown as a discontinued operation.

On October 25, 1999, WMS announced the closing of its pinball and cabinets segment and on August 10, 2000, WMS announced the discontinuance of its contract manufacturing segment with operations expected to cease September 30, 2000. Accordingly, the financial position, results of operations and cash flows of these segments have been reported as discontinued operations in the consolidated financial statements.

Note 2: Principal Accounting Policies

Consolidation Policy

The consolidated financial statements include the accounts of WMS and its majority-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation.

Cash Equivalents

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Short-Term Investments

All investments are designated as available-for-sale and are recorded at market value with the holding gain or loss, if any, reflected in stockholders' equity. Short-term investments consist principally of money market preferred stocks that generally have no fixed maturity dates but have dividend reset dates every 49 days or less.

Inventories

Inventories are valued at the lower of cost (determined by the first-in, first-out method) or market.

Property, Plant and Equipment and Gaming Machines on Participation or Lease

Property, plant and equipment and gaming machines on participation or lease are stated at cost and depreciated by the straight-line method over their estimated useful lives. Significant replacements and improvements are capitalized. Other maintenance and repairs are expensed.

Revenue Recognition

Revenue is recognized from product sales when the title to the product and the risk and rewards of ownership transfer to the customer. Participation and lease revenue are recognized when earned.

Advertising Expense

The cost of advertising is charged to earnings as incurred and for fiscal 2000, 1999 and 1998 was \$614,000, \$1,011,000 and \$453,000, respectively.

Research and Development

Research and development costs are expensed as incurred.

Reconciliation of Numerators and Denominators of the Basic and Diluted Earnings per Share from Continuing Operations

The reconciliation of the basic to diluted earnings per share for the fiscal years ended June 30, 2000 and 1999 is as follows:

Year ended June 30, 2000

(in thousands, except per share amounts)	Income	Shares	Per-Share amount
Basic EPS	\$44,422	30,615	\$ 1.45
Effect of Dilutive Securities— Stock Options	—	707	0.03
Diluted EPS	\$44,422	31,322	\$1.42

Year ended June 30, 1999

(in thousands, except per share amounts)	Income	Shares	Per-Share amount
Basic EPS	\$ 8,806	29,308	\$ 0.30
Effect of Dilutive Securities— Stock Options	—	203	—
Diluted EPS	\$ 8,806	29,511	\$ 0.30

The reconciliation for the year ended June 30, 1998 is not presented as the effect is anti-dilutive.

Options to purchase 290,000 shares of common stock at \$12.33 per share were outstanding during the last quarter of the year ended June 30, 2000 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the quarter. The options, which expire during the year ended June 30, 2010, were still outstanding as of June 30, 2000.

Options to purchase 45,000 shares of common stock at \$14.87 per share were outstanding during the last quarter of the year ended June 30, 1999 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the quarter. These options, which expire during the year ended June 30, 2009, were still outstanding as of June 30, 1999.

Note 3: Discontinued Operations As discussed in Note 1, on April 6, 1998 WMS completed the spinoff of Midway, on October 25, 1999, WMS announced the closing of its pinball and cabinets segment and on August 10, 2000, WMS announced the discontinuance of its contract manufacturing segment with operations expected to cease effective September 30, 2000. Accordingly, the financial position, results of operations and cash flows of these businesses have been reported as discontinued operations in the consolidated financial statements.

By January 2000, manufacturing activities for the pinball and cabinet segment were completed. All finished goods have been disposed of and any remaining assets, including raw material inventory and equipment, are expected to be sold or disposed of at the earliest practical date. At June 30, 2000, the assets of the pinball and cabinets segment consisted of trade receivables, inventories and plant and equipment amounting to \$4.1 million after deducting an allowance of \$7.9 million for write-downs to estimated realizable value. The liabilities related to discontinued operations were \$5.7 million, including \$3.3 million of reserves established for shutdown costs and estimated operating losses through the disposal date. The Company recorded a \$21.3 million pre-tax loss for the closing of these operations, including cash expenses of \$10.1 million, for projected operating losses through the disposal date, severance pay and shut down expenses. The loss on disposal included \$11.2 million in non-cash losses for the write-downs of receivables, inventory, plant and equipment to net realizable value. Tax benefits related to the loss on disposal were estimated to be \$8.1 million. The diluted loss per share from the discontinued pinball and cabinet segment was \$0.43, \$0.15, and \$0.19, respectively, for the years ended June 30, 2000, 1999 and 1998.

The condensed statement of operations for the pinball and cabinets segment for the fiscal years ended June 30, 2000, 1999 and 1998 is as follows:

(in thousands)	2000	1999	1998
Revenues	\$25,499	\$46,109	\$38,251
Costs and expenses	26,255	53,097	46,012
Loss before tax provision	(756)	(6,988)	(7,761)
Benefit for income taxes	(287)	(2,656)	(2,658)
Net loss	\$ (469)	\$ (4,332)	\$ (5,103)

Management expects to cease contract manufacturing of video games by September 30, 2000. Any remaining assets, including inventory and equipment, are expected to be sold or disposed of at the earliest practical date. At June 30, 2000, the assets of the contract manufacturing segment consisted of trade receivables, inventories and plant and equipment amounting to \$1.1 million after deducting an allowance of \$1.6 million for write-downs to estimated realizable value. The liabilities related to discontinued operations were \$2.5 million, including \$1.2 million of reserves established for shutdown costs through the disposal date. The Company recorded a \$2.8 million pre-tax loss related to the disposal, including cash expenses of \$1.2 million, for severance pay and shut down expenses. The loss on disposal included \$1.6 million in non-cash losses for write-downs of receivables, inventory, plant and equipment to net realizable value. Tax benefits related to the loss on disposal were estimated to be \$1.1 million. The diluted income (loss) per share from the discontinued contract manufacturing segment was \$(0.03), \$0.03, and \$0.01, respectively, for the years ended June 30, 2000, 1999 and 1998.

The condensed statement of operations for the contract manufacturing segment for the fiscal years ended June 30, 2000, 1999 and 1998 is as follows:

(in thousands)	2000	1999	1998
Revenues	\$11,118	\$15,225	\$3,951
Costs and expenses	10,153	13,968	3,604
Income before tax provision	965	1,257	347
Provision for income taxes	367	478	119
Net income	\$ 598	\$ 779	\$ 228

As discussed in Note 1, on April 6, 1998, the Company completed a spin-off of its 86.8% interest in Midway. Net assets of the video games segment of \$119,015,000 at the time of spin-off were recorded as a reduction of retained earnings from the tax-free dividend.

In conjunction with the Midway spin-off, at the request of the Board of Directors, on April 6, 1998 Neil D. Nicastro resigned as President, Chief Executive Officer and Chief Operating Officer of WMS to devote his full time to Midway as Chairman of the Board, President, Chief Executive Officer and Chief Operating Officer. Neil D. Nicastro agreed to the early termination and full settlement of his employment agreement with WMS pursuant to which, in lieu of all future payments of base salary, bonus, retirement and death benefits, he received a payment of \$2,500,000 and a 10 year option to purchase 250,000 shares of the Company's common stock. The payment less income tax benefit of \$861,000 and amounts previously accrued under his employment agreement are included in discontinuance costs in fiscal 1998. Other discontinuance costs of \$150,000 were accrued in connection with the Midway spin-off in addition to \$1,650,000 accrued at June 30, 1997. The diluted income per share from the discontinued video games segment was \$1.01 for the year ended June 30, 1998.

The condensed statement of operations for Midway for the nine months ended March 31, 1998 is as follows:

(in thousands)	1998
Revenues	\$293,144
Cost and expenses	242,850
Operating income	50,294
Interest and other income, net	2,326
Income before tax provision	52,620
Provision for income taxes	19,996
Net income	\$ 32,624

The income from discontinued operations of the video games segment for the nine months ended March 31, 1998 shown in the WMS consolidated statements of operations is equal to net income of Midway reduced by minority interest in income of \$4,322,000.

Note 4: Property, Plant and Equipment and Gaming Machines on Participation or Lease At June 30 net property, plant and equipment were:

(in thousands)	2000	1999
Land	\$ 2,985	\$ 2,985
Buildings and improvements	25,926	25,333
Machinery and equipment	18,426	16,246
Furniture and fixtures	2,548	2,214
	49,885	46,778
Less accumulated depreciation	(19,420)	(15,294)
Net property, plant and equipment	\$30,465	\$31,484

At June 30 net gaming machines on participation or lease were:

(in thousands)	2000	1999
Gaming machines	\$ 35,726	\$26,866
Less accumulated depreciation	(18,917)	(7,135)
Net gaming machines on participation or lease	\$ 16,809	\$19,731

Note 5: Total Other Accrued Liabilities At June 30 other accrued liabilities were:

(in thousands)	2000	1999
Accrued property taxes	\$ 1,024	\$ 452
Royalties payable	1,931	1,168
Sales taxes payable	1,195	675
Liability under tax sharing agreement	2,800	—
Other accrued liabilities	3,375	2,695
Total other accrued liabilities	\$10,325	\$4,990

Note 6: Income Taxes Significant components of the provision (benefit) for income taxes for the years ended June 30, 2000, 1999 and 1998 were:

(in thousands)	2000	1999	1998
Current			
Federal	\$11,828	\$ 1,490	\$(24,438)
State	1,856	82	(3,535)
Total current	13,684	1,572	(27,973)
Deferred			
Federal	10,478	(356)	2,679
State	898	(34)	419
Change in state allocations	—	537	—
Total deferred	11,376	147	3,098
Provision for tax benefits resulting from stock options	1,956	3,678	1,984
Provision (benefit) for income taxes on continuing operations	27,016	5,397	(22,891)
Provision (benefit) for income taxes on discontinued operations	(9,246)	(2,178)	16,596
Income tax provision (benefit), net	\$ 17,770	\$ 3,219	\$ (6,295)

Deferred income taxes reflect the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amounts used for income taxes.

Significant components of the Company's deferred tax assets and liabilities at June 30 were:

(in thousands)	2000	1999
Deferred tax assets resulting from		
Inventory valuation	\$ 1,702	\$ 1,758
Receivables valuation	1,512	830
Book over tax depreciation	2,092	—
Discontinued operations	5,517	1,189
Accrued items not currently deductible	303	507
Accruals relating to litigation	—	15,500
Other	476	—
Total deferred tax assets	\$11,602	\$19,784
Deferred tax liabilities resulting from		
Tax over book depreciation	—	650
Federal tax benefit of deferred state taxes	605	897
Other	—	1,267
Total deferred tax liabilities	605	2,814
Net deferred tax assets	\$10,997	\$16,970

The provision (benefit) for income taxes on continuing operations differs from the amount computed using the statutory federal income tax rate as follows:

(in thousands)	2000	1999	1998
Statutory federal income tax rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal benefit	2.9	8.7	(2.7)
Dividend received deduction on investment income	(0.4)	(5.1)	—
Stock option adjustment cost not deductible	—	—	3.5
Other, net	0.3	(0.6)	—
	37.8%	38.0%	(34.2)%

Taxes paid in the years ended June 30, 2000 and 1999 were \$5,900,000 and \$31,000, respectively. Refunds received in the years ended June 30, 2000 and 1999 were \$2,080,000 and \$4,642,000, respectively. No tax payments were made and no tax refunds were received in the year ended June 30, 1998.

Note 7: Line of Credit and Long-term Debt The Company has an unused line of credit for \$25,000,000 under a revolving credit agreement for a one-year term to August 1, 2001 which contains usual credit terms for a bank line. No borrowing occurred on the line in the year ended June 30, 2000 or 1999.

The Company has an unused line of credit for \$2,000,000 for issuance of letters of credit and foreign exchange transactions,

which contains usual credit terms for a bank line. The agreement expires on August 1, 2002.

During fiscal 1998, as a result of a call for redemption on September 22, 1997 of 33% of the \$57,500,000 in outstanding debentures and a call for redemption on October 29, 1997 of the remaining outstanding debentures, debentures with an aggregate principal amount of \$57,322,000 were converted into 2,488,855 shares of WMS common stock and \$178,000 of such debentures were redeemed.

Note 8: Stockholders' Equity and Common Stock Plans

Authorized common stock of the Company consists of 100,000,000 shares of \$.50 par value. At June 30, 2000, 4,236,817 shares of common stock were reserved for possible issuance under stock option plans. Additionally, there are 5,000,000 shares of \$.50 par value preferred stock authorized. The preferred stock is issuable in series, and the relative rights and preferences and the number of shares in each series are to be established by the Board of Directors.

At the date of the Midway spin-off the WMS Rights Agreement became effective. Under the Rights Agreement, each share of WMS common stock has an accompanying Right to purchase, under certain conditions, one one-hundredth of a share of the Company's Series A Preferred Stock at an exercise price of \$100, permitting each holder to receive \$200 worth of the Company's common stock valued at the then current market price. The rights become exercisable if any person or entity that did not, before the Plan was adopted, own 15% or more of our common stock acquires beneficial ownership of 15% or more of our common stock. The Rights are redeemable by the Company at \$.01 per Right, subject to certain conditions, at any time and expire in 2007.

Under the stock option plans, the Company may grant both incentive stock options and nonqualified options on shares of common stock through the year 2010. Options may be granted to employees and under certain conditions to non-employee directors and consultants. The stock option committee has the authority to fix the terms and conditions upon which each employee option is granted, but in no event shall the term exceed ten years or generally be granted at less than 100% of the fair market value of the stock on the date of grant.

On September 30, 1997, the Company entered into an agreement with each of the holders of all of the common stock options then outstanding, which were exercisable into 4,089,011 shares of WMS common stock, regarding an option adjustment in connection with the Midway spin-off. On the spin-off record

date of March 31, 1998, the Company recorded a pre-tax charge of \$59,890,000 for the adjustment to stock options, pursuant to the anti-dilution provision of the Company's stock option plans, to compensate the holders for the lost opportunity value represented by the shares of Midway distributed in the spin-off which option holders did not participate in. Of that amount, cash payments on April 6, 1998 totaled \$35,001,000, and 515,360 pre-spin-off shares of WMS common stock were issued valued at \$14,974,000. An additional \$4,179,000 was paid in the fourth quarter of fiscal 1998 and \$779,000 was accrued for the Company's portion of payroll tax. Expense related to the adjustment of stock options that were not vested as of June 30, 1998 is being recorded and paid consistent with the options' vesting schedule. During fiscal 2000 and 1999, \$1,962,000 and \$3,037,000 of such expense was recorded, respectively. At June 30, 2000, the maximum additional future pre-tax expense related to non-vested stock options is \$196,000 plus interest.

At the request of the Board of Directors, in lieu of receiving from the Company the adjustment in connection with the Midway spin-off, Louis J. Nicastro, Chairman of the Board, exercised all of his 629,554 WMS common stock options and sold the shares of common stock on March 19, 1998. The cash received by the Company of \$13,437,000 from exercise of these options was then available for the stock option adjustment payments. Louis J. Nicastro received \$4,957,000 from the Company as compensation for the difference between what the Company would have paid him for his stock option adjustment and the net amount he received from exercise and sale of the stock options.

The Company accounts for stock options for purposes of determining net income in accordance with APB No. 25.

A summary of the status of the Company's stock option plans for the three years ended June 30, 2000 was as follows:

	Shares (In thousands)	Weighted Average Exercise Price
Outstanding at June 30, 1997	4,122	\$19.51
Exercised	(663)	21.22
Outstanding at modification date (4/6/98)	3,459	19.18
Activity after 4/6/98 modification:		
Outstanding as modified	3,459	3.16
Granted	1,041	5.16
Exercised	(94)	2.57
Outstanding at June 30, 1998	4,406	3.65
Granted	456	9.93
Exercised	(2,396)	3.38
Forfeited	(137)	3.67
Outstanding at June 30, 1999	2,329	5.16
Granted	1,103	9.62
Exercised	(491)	3.21
Forfeited	(261)	6.56
Outstanding at June 30, 2000	2,680	6.97

The following tables summarize information about stock options outstanding at June 30, 2000:

Options outstanding

Range of Exercise Prices	Number Outstanding (000)	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$2.51–\$3.75	616	3.9	\$ 3.39
4.32– 5.44	743	7.8	5.12
7.13–10.50	986	9.5	8.84
10.75–15.00	335	9.6	12.12
2.51–15.00	2,680	7.7	6.97

Options exercisable

Range of Exercise Prices	Number Outstanding (000)	Weighted Average Exercise Price
\$2.51–\$3.75	570	\$3.37
4.32– 5.44	611	5.26
7.13–10.50	28	9.59
10.75–15.00	177	11.65
2.51–15.00	1,386	5.38

At June 30, 2000, 1,557,000 shares were available for future grants under the plans. At June 30, 1999, 1,566,000 options with a weighted average exercise price of \$4.03 per share were exercisable. At June 30, 1998, 3,799,000 options with a weighted average exercise price of \$3.66 per share were exercisable.

On April 6, 1998, the Board of Directors reduced the exercise price of each option by approximately 83.5% to reflect the initial post Midway spin-off trading price of WMS common stock. This modification did not result in any additional pro forma compensation expense.

The Company has a Treasury Share Bonus Plan for key employees covering all the shares of common stock held in the treasury. The vesting and other terms of the awards are flexible. No awards of treasury stock were outstanding at June 30, 2000 or 1999.

SFAS No. 123 regarding stock option plans permits the use of APB 25 but requires the inclusion of certain pro forma disclosures in the footnotes. Pro forma net income (loss) and net income (loss) per share adjusted for the pro forma expense provisions of SFAS No. 123 were:

(in thousands, except per share amounts)	2000	1999	1998
Pro forma net income (loss)	\$28,646	\$4,784	\$(25,850)
Pro forma net income (loss) per share:			
Basic	\$ 0.94	\$ 0.16	\$ (0.98)
Diluted	\$ 0.91	\$ 0.16	\$ (0.98)

The fiscal 1998 pro forma net loss includes an after tax charge of \$1,747,000 for the granting of Midway options.

The pro forma fair value of each option grant is estimated on the date of grant or modification using the Black-Scholes option pricing model with the following weighted average assumptions used for modifications and grants in fiscal 2000, 1999 and 1998: dividend yield 0% for all three years; expected volatility of .75 in fiscal 2000, .80 for fiscal 1999 and .37 for fiscal 1998; risk free interest rates of 6.00% in 2000, 5.95% in 1999 and 5.65% in 1998; and expected life of the options of 6 years for 2000, 1999 and 1998. The weighted average pro forma fair value, using the Black-Scholes

assumptions noted above, of the options granted during fiscal 2000, 1999 and 1998 was \$6.75, \$7.22 and \$2.36, respectively.

Note 9: Concentration of Credit and Market Risk and Fair Value Disclosures of Financial Instruments Financial instruments which potentially subject the Company to concentrations of credit and market risk consist primarily of cash equivalents, short term investments and trade notes and accounts receivable. By policy, the Company places its cash equivalents and short-term investments only in high credit quality securities and limits the amounts invested in any one security. The accounts and notes receivable from the sale of gaming devices are generally from a large number of customers with no significant concentration other than in Nevada.

In fiscal 2000, one domestic customer accounted for approximately 10.3% of consolidated sales, and less than 10% in the prior years.

The amount reported for cash equivalents and short-term investments is considered to be a reasonable estimate of their fair value.

Note 10: Lease Commitments The Company leases certain of its office facilities and equipment under non-cancelable operating leases with net future lease commitments for minimum rentals at June 30, 2000 as follows:

(in thousands)	
2001	\$ 692
2002	557
2003	543
2004	480
2005	434
Thereafter	60
	\$2,766

Rent expense for fiscal 2000, 1999 and 1998 was \$1,340,000, \$1,332,000 and \$1,066,000, respectively.

Note 11: Pension Plans During fiscal 1992 and 1998, the Company suspended the salary and hourly defined benefit plans and substituted defined contribution employee retirement savings plans. The components of net periodic pension cost of the defined benefit plans for the fiscal year ended June 30 were:

(in thousands)	2000	1999	1998
Service costs	\$ 20	\$ —	\$ 107
Interest cost	247	289	372
Expected return on plan assets	(181)	(112)	(155)
Net amortization of transition and other	137	2	(43)
Benefit cost	\$ 223	\$ 179	\$ 281

(in thousands)	2000	1999
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 3,664	\$ 4,683
Service cost	20	—
Interest cost	247	289
Actuarial gains	(276)	(297)
Benefit paid	(431)	(1,011)
Benefit obligation at end of year	3,224	3,664

Change in plan assets		
Fair value of plan assets at beginning of year	2,020	2,790
Actual return on plan assets	163	120
Company contributions	347	141
Benefits paid and expenses	(451)	(1,031)

Fair value of plan assets at end of year	2,079	2,020
Underfunded status of the plan	(1,145)	(1,644)
Unrecognized amounts	563	903
Accrued benefit cost	\$ (582)	\$ (741)

Weighted-average assumptions as of June 30		
Discount rate	7.5%	7.5%
Expected return on plan assets	9.0	9.0

Amount recognized in the consolidated balance sheet consists of:		
Accrued benefit liability	\$(1,145)	\$(1,644)
Intangible asset	563	903
Net amount recognized	\$ (582)	\$ (741)

The Company has two defined contribution employee retirement savings plans. These defined contribution plans cover certain

hourly and salaried employees. The Company's contributions to these plans are based on employee participation with certain limitations. The Company may change any of the factors which determine the Company's contribution to such plans. A subsidiary is required to make contributions on behalf of unionized employees to defray part of the costs of the multi-employer pension plan established by its labor union. Such contributions are computed using a fixed charge per employee. Contributions to the defined contribution and multi-employer plans for fiscal 2000, 1999 and 1998 were \$437,000, \$303,000 and \$207,000, respectively.

Note 12: Quarterly Financial Information (unaudited)

Summarized quarterly financial information for fiscal 2000 and 1999 is as follows, and has been restated to reflect discontinued operations of the pinball and cabinets segment and the contract manufacturing segment:

(in thousands, except per share amounts)	Sept. 30 1999	Dec. 31 1999	Mar. 31 2000	June 30 2000
Fiscal 2000 Quarters				
Revenues	\$48,020	\$51,830	\$49,139	\$67,687
Gross profit	27,806	28,457	28,416	36,391
Net income (loss)	(4,720)	15,558	7,709	11,259
Per share of common stock:				
Basic:				
Net income (loss)	\$ (0.15)	\$ 0.51	\$ 0.25	\$ 0.37
Shares used	30,488	30,573	30,726	30,780
Diluted:				
Net income (loss)	\$ (0.15)	\$ 0.50	\$ 0.25	\$ 0.36
Shares used	30,488	31,305	31,361	31,401

The December 31, 1999, March 31, 2000 and June 30, 2000 quarters include an after-tax charge of \$565,000, \$0.02 per diluted share, \$528,000, \$0.02 per diluted share and \$105,000, nil per diluted share, respectively, for the spin-off related adjustment to WMS outstanding common stock options vesting during each quarter. The December 31, 1999 and June 30, 2000 quarters include an after-tax reversal of an excess accrual of \$8,187,000, \$0.26 per diluted share, and \$1,532,000, \$0.05 per diluted share, related to the settlement of litigation. The September 30, 1999 quarter includes an after-tax charge of \$13,539,000, \$0.44 per diluted share, for the discontinuance of the pinball and cabinet business. The September 30, 1999, December 31, 1999 and March 31, 2000 quarters include after-tax earnings of \$145,000, nil per diluted share, \$148,000, nil per diluted share, and \$162,000, \$0.01 per diluted share, respectively, for the discontinued contract manufacturing segment. The June 30, 2000 quarter includes an after-tax charge of \$1,532,000, \$0.05 per diluted share, for the discontinued contract manufacturing segment.

(in thousands, except per share amounts)	Sept. 30 1998	Dec. 31 1998	Mar. 31 1999	June 30 1999
Fiscal 1999 Quarters				
Revenues	\$18,844	\$25,575	\$34,665	\$46,872
Gross profit	6,415	9,997	15,062	24,187
Net income (loss)	(1,644)	(1,235)	1,837	6,295
Per share of common stock:				
Basic :				
Net income (loss)	\$ (0.06)	\$ (0.04)	\$ 0.06	\$ 0.21
Shares used	27,988	29,039	30,055	30,196
Diluted:				
Net income (loss)	\$ (0.06)	\$ (0.04)	\$ 0.06	\$ 0.20
Shares used	27,988	29,514	30,800	31,168

The December 31, 1998, March 31, 1999 and June 30, 1999 quarters include an after-tax charge of \$375,000, \$0.01 per diluted share, \$330,000, \$0.01 per diluted share and \$1,178,000, \$0.04 per diluted share, respectively, for the spin-off related adjustment to WMS outstanding common stock options vesting during each quarter. The September 30, 1998, December 31, 1998, March 31, 1999 and June 30, 1999 quarters include an after-tax loss of \$1,590,000, \$0.06 per diluted share, \$2,111,000, \$0.07 per diluted share, \$1,252,000, \$0.04 per diluted share and income of \$621,000, \$0.02 per diluted share, respectively, for the discontinued pinball and cabinet business. The September 30, 1998, December 31, 1998, March 31, 1999 and June 30, 1999 quarters include after-tax earnings of \$146,000, \$0.01 per diluted share, \$252,000, \$0.01 per diluted share, \$206,000, \$0.01 per diluted share and \$175,000, \$0.01 per diluted share, respectively, for the discontinued contract manufacturing segment.

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WMS Industries Inc.

Norman J. Menell
Vice Chairman of the Board
WMS Industries Inc.

Neil D. Nicastro
*Chairman of the Board,
Chief Executive Officer,
Chief Operating Officer
and President*
Midway Games Inc.

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President Near North
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(Insurance Brokers)
Vice Chairman
Turner Broadcasting—
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stock is listed on the
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under the symbol WMS

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Publications

A copy of our Annual Report on
Form 10-K is available without
charge upon written request to:

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