



DEAR FELLOW SHAREHOLDERS

Williams Controls' 2006 fiscal year was the best in the company's history, with a record \$74.6 million in sales and \$9.5 million in net profits. These results were fueled by a 78 percent increase in Asian sales, strong growth in the off-road market, and a record year for NAFTA heavy truck sales. In addition, our efforts to improve our operation and develop new products are paying off, making us more globally competitive and helping us capitalize on opportunities as the world moves to more stringent emission standards.

INTERNATIONAL GROWTH One of the year's most positive developments has been our success in Asia. After establishing new manufacturing and sales facilities in China in early 2005, Williams Controls began producing an expanded range of Electronic Throttle Controls (ETCs) and sensors at our Suzhou, China, plant in 2006. By fiscal year-end, we successfully increased production to more than 650 pedals and 1,500 sensors daily, volumes we will grow substantially during 2007.

Williams Controls saw particularly strong business growth in Korea, Japan and China, countries that are implementing tougher emission standards. This past year we secured significant new and expanded business in those countries with OEM manufacturers. We expect to grow our business in Asia as production of emission-compliant engines increases in the next several years.

Williams Controls recently received board approval to explore building a small assembly plant in India after our efforts this year resulted in sales to key Indian customers. Like China, India is moving to Euro 3-type emission regulations for its heavy truck market. While the timing of widespread implementation of emission regulations in India will depend on regulatory authorities, our information indicates the market for ETCs will grow to more than 250,000 units over the next several years. As the Indian market for our products evolves, Williams Controls will be positioned to provide local support for our Indian customers.

MARKET AND PRODUCT EXPANSION With the measured move toward more stringent emission standards for off-road vehicles in North America and Europe, Williams Controls made a substantial investment this year to increase sales in this important market. Unlike heavy truck manufacturers, many off-road companies produce their pedals in-house. Williams Controls is trying to make the transition to ETCs easier by demonstrating the value of outsourcing that business to us. To date, our efforts have been rewarded with several important contracts. We expect continued growth in this market as more off-road manufacturers outsource to meet the new regulatory demands.

This year we launched several strategic product initiatives. In the first quarter of fiscal 2006, we successfully launched production of our new sensors in our China plant. This strategic move allows us to more quickly design and build sensors to our customers' rigorous specifications, while reducing our reliance on outside suppliers for these key components.

In February, 2006, we launched our adjustable pedals product line, a system to improve user comfort and convenience in multi-driver vehicles. Williams Controls already has secured four OEM customers for these systems, and we are excited about future growth prospects.

More products are in the works. Williams Controls nearly tripled the number of products under development in fiscal 2006 and we currently have more than 100 programs under development. Given the growth of our market worldwide, and Williams Controls' inherent strength in designing and manufacturing proprietary products, we expect our pipeline to remain full in the coming year.

RECORD NAFTA SALES AND MARKET DIVERSIFICATION In fiscal 2006, Williams Controls enjoyed a record \$33 million in NAFTA-generated truck sales which peaked prior to the 2007 implementation of North America's new emission standards. This represented approximately 44 percent of our revenues, with the balance from business outside of the NAFTA heavy truck market. This is especially important since the industry anticipates a temporary 30 percent decrease in NAFTA heavy truck business next year and a 10 percent decrease for medium trucks. Given Williams Controls' market diversity and global customers, we believe we are well positioned to offset much of the anticipated decline in this market.

CORE BUSINESS REALIGNMENT In March we began one of the most difficult and critical components in our quest to become more globally competitive: the realignment of our operations in Portland. By June, 2007, we will complete outsourcing of our die casting and machining operations to suppliers, primarily in Asia, and relocation of the assembly of pneumatic products to our plant in Suzhou, China. As a result, we will eliminate approximately 55 jobs in Portland in 2007.

WELL-POSITIONED FOR THE FUTURE In addition to substantially growing our company's sales and profits, we enhanced shareholder value this year by buying back more than 400,000 post split shares of stock from American Industrial Partners and paying down our debt by \$5.1 million.

In October, 2006, Williams Controls was listed on the NASDAQ Global Market. Trading on NASDAQ has given us increased visibility with the investment community and enhanced the trading liquidity of Williams Controls' shares, both important to our efforts to maximize shareholder value.

In the coming year, Williams Controls will continue to build on our 2006 momentum by remaining focused on growing global sales and keeping our business lean. One way we are doing this is by implementing Six Sigma throughout the company to ensure we are operating as efficiently as possible. Today we are in a better position than ever to take advantage of the growing opportunities in the global truck, bus and off-road markets.



Patrick W. Cavanagh
President and Chief Executive Officer