

WMS INDUSTRIES INC /DE/  
Form 10-Q  
May 10, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 1-8300

\_\_\_\_\_  
**WMS INDUSTRIES INC.**

*(Exact name of registrant as specified in its Charter)*

\_\_\_\_\_

Delaware  
(State or other Jurisdiction of  
incorporation or organization)

800 South Northpoint Blvd.  
Waukegan, IL 60085

36-2814522  
(I.R.S. Employer  
Identification No.)

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*(Address of Principal Executive Offices)*

**(847) 785-3000**

*(Registrant's telephone number, including area code)*

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 31,584,481 shares of common stock, \$.50 par value, were outstanding at May 4, 2006, excluding 780,722 shares held as treasury shares.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WMS INDUSTRIES INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

For the Three and Nine Months Ended March 31, 2006 and 2005

(in millions of U.S. dollars and millions of shares, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
<b>REVENUES:</b>				
Product Sales	\$ 73.0	\$ 76.5	\$ 221.3	\$ 199.3
Gaming Operations	37.7	31.2	107.2	77.5
<b>Total Revenues</b>	110.7	107.7	328.5	276.8
<b>COSTS AND EXPENSES:</b>				
Cost of Product Sales(1)	41.6	46.4	127.2	121.0
Cost of Gaming Operations(1)	8.1	7.0	24.6	16.6
Research and Development	12.5	12.9	36.3	38.5
Selling and Administrative	22.5	20.6	64.7	55.5
Depreciation and Amortization(1)	13.5	10.9	40.0	26.4
<b>Total Costs and Expenses</b>	98.2	97.8	292.8	258.0
<b>OPERATING INCOME</b>	12.5	9.9	35.7	18.8
Interest Expense	(1.0)	(1.0)	(3.2)	(3.0)
Interest Income and Other Income and Expense, Net	0.8	1.1	1.7	3.5
<b>Income Before Income Taxes</b>	12.3	10.0	34.2	19.3
Provision for Income Taxes	3.1	2.8	10.9	5.8
<b>NET INCOME</b>	\$ 9.2	\$ 7.2	\$ 23.3	\$ 13.5
<b>Earnings per Share:</b>				
Basic	\$ 0.29	\$ 0.23	\$ 0.74	\$ 0.44
Diluted	\$ 0.26	\$ 0.21	\$ 0.66	\$ 0.41
<b>Weighted-Average Common Shares:</b>				
Basic Common Stock Outstanding	31.4	30.8	31.4	30.6
Diluted Common Stock and Common Stock Equivalents	37.7	37.5	37.8	37.5

(1) Cost of product sales and cost of gaming operations exclude the following amounts of depreciation and amortization, which are included separately in the depreciation and amortization line item:

Cost of Product Sales	\$ 0.6	\$ 0.5	\$ 1.7	\$ 1.4
Cost of Gaming Operations	\$ 11.3	\$ 8.8	\$ 33.5	\$ 20.2

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**Table of Contents****WMS INDUSTRIES INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****March 31, 2006 and June 30, 2005****(in millions of U.S. dollars and millions of shares)**

	<b>March 31,</b>	<b>June 30,</b>
	<b>2006</b>	<b>2005</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 49.7	\$ 35.2
Restricted Cash	8.4	3.5
Short-term Investments		6.1
<b>Total Cash, Cash Equivalents, and Short-term Investments</b>	<b>58.1</b>	<b>44.8</b>
Accounts Receivable, Net of Allowances of \$2.6 and \$2.5, Respectively	88.3	77.0
Notes Receivable, Current Portion	50.5	45.3
Inventories, at Lower of Cost (FIFO) or Market (see Note 4)	86.9	104.3
Other Current Assets	34.4	39.7
<b>Total Current Assets</b>	<b>318.2</b>	<b>311.1</b>
<b>NON-CURRENT ASSETS:</b>		
Gaming Operations Machines, Net of Accumulated Depreciation of \$98.8 and \$78.7, Respectively	58.7	54.4
Property, Plant and Equipment, Net of Accumulated Depreciation of \$43.3 and \$37.5, Respectively	57.7	53.4
Royalties, Licensed Technologies, Patents, and Trademarks (see Note 8)	50.4	47.4
Other Assets	22.4	12.1
<b>Total Non-current Assets</b>	<b>189.2</b>	<b>167.3</b>
<b>TOTAL ASSETS</b>	<b>\$ 507.4</b>	<b>\$ 478.4</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 32.5	\$ 31.4
Accrued Compensation and Related Benefits	7.0	6.1
Other Accrued Liabilities	27.4	31.8
<b>Total Current Liabilities</b>	<b>66.9</b>	<b>69.3</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred Licensing Purchase Obligation	4.6	4.7
Deferred Income Tax Liabilities	4.2	4.2
2.75% Convertible Subordinated Notes Due 2010	115.0	115.0
<b>Total Non-current Liabilities</b>	<b>123.8</b>	<b>123.9</b>
Commitments and Contingencies (see Notes 11 and 12)		
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock (5.0 Shares Authorized, None Issued)		

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Common Stock (32.4 Shares Issued)	16.2	16.2
Additional Paid-in Capital	224.4	225.0
Retained Earnings	87.6	64.3
Unearned Restricted Stock		(11.5)
Accumulated Other Comprehensive Income	0.9	0.6
Treasury Stock (0.8 at March 31, 2006 and 0.7 at June 30, 2005)	(12.4)	(9.4)
<b>Total Stockholders Equity</b>	<b>316.7</b>	<b>285.2</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 507.4</b>	<b>\$ 478.4</b>

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**Table of Contents****WMS INDUSTRIES INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Nine Months Ended March 31, 2006 and 2005

(in millions of U.S. dollars)

(Unaudited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 23.3	\$ 13.5
Adjustments to Reconcile Net Income to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	40.0	26.4
Deferred Income Taxes	1.9	5.8
Non-Cash Expenses	11.8	2.8
Decrease from Changes in Operating Assets and Liabilities	(10.1)	(82.0)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>66.9</b>	<b>(33.5)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property, Plant and Equipment	(11.2)	(7.0)
Additions to Gaming Operations Machines	(42.4)	(44.0)
Investment and Advances in Royalties, Licensed Technologies, Patents, and Trademarks	(3.2)	(3.9)
Proceeds from Short-term Investments	6.1	37.3
<b>Net Cash Used in Investing Activities</b>	<b>(50.7)</b>	<b>(17.6)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Received from Exercise of Stock Options	2.7	8.6
Tax Benefit from Exercise of Stock Options	0.6	3.5
Purchase of Treasury Stock	(5.3)	
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(2.0)</b>	<b>12.1</b>
Effect Of Exchange Rates On Cash	0.3	0.2
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>14.5</b>	<b>(38.8)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>35.2</b>	<b>59.9</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 49.7</b>	<b>\$ 21.1</b>

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.



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**WMS INDUSTRIES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions of U.S. dollars and millions of shares, except per share amounts)**

**(Unaudited)**

**1. FINANCIAL STATEMENTS**

The accompanying unaudited interim Condensed Consolidated Financial Statements of WMS Industries Inc. ( WMS , we , us or the Company ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. The Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 2005 included in the Company s Annual Report on Form 10-K filed with the SEC on September 9, 2005. The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. Certain prior-period amounts have been reclassified to conform to the current-period presentation.

Sales of our gaming machines to casinos are generally strongest in the spring and slowest in the summer months. In addition, quarterly revenues and net income may increase when we receive a larger number of approvals for new games from regulators than in other quarters, when a game that achieves significant player appeal is introduced or if gaming is permitted in a significant new jurisdiction. Operating results for the quarter and nine months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2006. For further information, refer to the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

Data for product sales and gaming operations is only maintained on a consolidated basis as presented in our Condensed Consolidated Financial Statements, with no additional separate data maintained for product sales and gaming operations (other than the revenues and costs of revenues information included in the Condensed Consolidated Statements of Income and cost of gaming machines and related accumulated depreciation included in the Condensed Consolidated Balance Sheets).

**2. PRINCIPAL ACCOUNTING POLICIES**

**Revenue Recognition**

*Product Sales*

We record revenue on product sales, net of rebates, discounts, and allowances, when:

persuasive evidence of an agreement exists,

the sales price is fixed or determinable,

the product is delivered, and

collectibility is reasonably assured.

We sell gaming machines through credit terms of 90 days or less or with credit terms that may extend up to two years under contracts of sale, usually secured by the related equipment, with interest recognized at market rates. Revenues are reported net of incentive rebates or discounts.

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When multiple product deliverables are included under a sales contract, in accordance with Emerging Issues Task Force Issue 00-21 ( EITF 00-21 ), *Revenue Arrangements with Multiple Deliverables*, we allocate revenue to each unit of accounting based upon their respective fair values against the total contract value and defer revenue recognition on those deliverables where we have not met all requirements of revenue recognition. The Company allocates revenue to each unit of accounting based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold.

The Company recognizes revenue when the product is delivered and defers revenue for any undelivered units of accounting. Deliverables are divided into separate units of accounting if:

each item has value to the customer on a stand alone basis;

we have objective and reliable evidence of the fair value of the undelivered items; and

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**WMS INDUSTRIES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions of U.S. dollars and millions of shares, except per share amounts)**