

WMS INDUSTRIES INC /DE/  
Form 10-Q  
May 12, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

R

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

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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	36-2814522
(State or other	(I.R.S. Employer
Jurisdiction of	Identification No.)
incorporation or	
organization)	

800 South Northpoint Blvd.  
Waukegan, IL 60085  
(Address of Principal Executive Offices)

(847) 785-3000  
(Registrant's telephone number, including area code)

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 R 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   
filer

Non-accelerated filer   
Accelerated

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 50,845,474 shares of common stock, \$0.50 par value, were outstanding at April 30, 2008.

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## WMS INDUSTRIES INC.

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ITEM 1. FINANCIAL STATEMENTS

## WMS INDUSTRIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended March 31, 2008 and 2007

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

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
<b>REVENUES:</b>				
Product sales	\$ 113.6	\$ 93.9	\$ 299.2	\$ 256.3
Gaming operations	59.2	42.7	165.3	125.5
<b>Total revenues</b>	<b>172.8</b>	<b>136.6</b>	<b>464.5</b>	<b>381.8</b>
<b>COSTS AND EXPENSES:</b>				
Cost of product sales(1)	59.1	50.9	155.8	142.0
Cost of gaming operations(1)	12.3	8.0	34.2	26.0
Research and development	19.5	14.6	53.8	41.2
Selling and administrative	34.0	28.0	95.9	78.2
Depreciation(1)	18.3	15.3	54.3	46.5
<b>Total costs and expenses</b>	<b>143.2</b>	<b>116.8</b>	<b>394.0</b>	<b>333.9</b>
<b>OPERATING INCOME</b>	<b>29.6</b>	<b>19.8</b>	<b>70.5</b>	<b>47.9</b>
Interest expense	(1.1)	(1.0)	(3.1)	(3.8)
Interest and other income, net	1.3	0.8	3.8	2.2
Income before income taxes	29.8	19.6	71.2	46.3
Provision for income taxes	11.0	6.7	25.3	14.1
<b>NET INCOME</b>	<b>\$ 18.8</b>	<b>\$ 12.9</b>	<b>\$ 45.9</b>	<b>\$ 32.2</b>
<b>Earnings per share:</b>				
Basic	\$ 0.37	\$ 0.26	\$ 0.92	\$ 0.67
Diluted	\$ 0.32	\$ 0.23	\$ 0.78	\$ 0.58
<b>Weighted-average common shares:</b>				
Basic common stock outstanding	50.5	49.1	50.1	48.1
Diluted common stock and common stock equivalents	60.9	59.6	60.6	58.9

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

Cost of product sales	\$ 0.9	\$ 0.6	\$ 2.6	\$ 1.8
Cost of gaming operations	\$ 15.1	\$ 12.9	\$ 45.2	\$ 38.8

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

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## WMS INDUSTRIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2008 and June 30, 2007

(in millions of U.S. dollars and millions of shares)

ASSETS	March 31, 2008 (unaudited)	June 30, 2007
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 93.9	\$ 37.2
Restricted cash	18.5	16.0
Total cash, cash equivalents, and restricted cash	112.4	53.2
Accounts receivable, net of allowances of \$2.1 and \$2.5, respectively	118.3	114.5
Notes receivable, current portion	64.3	59.4
Inventories	65.1	79.3
Deferred income tax assets	9.7	9.4
Other current assets	32.8	26.4
Total current assets	402.6	342.2
<b>NON-CURRENT ASSETS:</b>		
Gaming operations equipment, net of accumulated depreciation of \$159.4 and \$129.3, respectively	78.1	90.0
Property, plant and equipment, net of accumulated depreciation of \$69.6 and \$57.9, respectively	113.2	91.9
Intangible assets	107.8	97.0
Deferred income tax assets	25.6	19.9
Other assets	16.8	14.7
Total non-current assets	341.5	313.5
<b>TOTAL ASSETS</b>	<b>\$ 744.1</b>	<b>\$ 655.7</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 46.6	\$ 38.8
Accrued compensation and related benefits	15.8	17.5
Other accrued liabilities	34.2	30.4
Total current liabilities	96.6	86.7
<b>NON-CURRENT LIABILITIES:</b>		
Deferred income tax liabilities.	12.1	9.4
Long-term debt	115.0	115.0
Other non-current liabilities	13.4	11.0
Total non-current liabilities	140.5	135.4
Commitments, contingencies and indemnifications (see Note 12)	—	—
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock (5.0 shares authorized, none issued)	—	—

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Common stock (100.0 shares authorized, 50.8 and 50.0 shares issued, respectively)	25.4	25.0
Additional paid-in capital	296.1	269.1
Retained earnings	182.3	138.2
Accumulated other comprehensive income	8.2	1.3
Treasury stock (0.1 shares and zero shares, respectively)	(5.0)	—
Total stockholders' equity	507.0	433.6
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 744.1</b>	<b>\$ 655.7</b>

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



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## WMS INDUSTRIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended March 31, 2008 and 2007

(in millions of U.S. Dollars)

(Unaudited)

	Nine Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 45.9	\$ 32.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	54.3	46.5
Share-based compensation	11.5	9.1
Amortization of intangibles and other assets	13.7	11.9
Other non-cash items	7.0	(3.1)
Bad debt expense	2.2	0.7
Deferred income taxes	(3.3)	(5.1)
Change in operating assets and liabilities, net of business acquisitions	(4.9)	(23.8)
Net cash provided by operating activities	126.4	68.4
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to gaming operations equipment	(37.8)	(52.3)
Purchase of property, plant and equipment	(30.8)	(24.2)
Investment and advances in royalties, licensed technologies, patents, and trademarks, net of business acquisitions	(11.1)	(20.7)
Purchase of business, net of cash acquired	(0.2)	(20.9)
Purchase of restricted long-term investments	(0.7)	—
Net cash used in investing activities	(80.6)	(118.1)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash received from exercise of stock options	14.3	20.5
Tax benefit from exercise of stock options	11.7	6.3
Proceeds from borrowings under revolving credit facility	—	15.0
Repayments of borrowings under revolving credit facility	—	(15.0)
Purchases of treasury stock	(15.0)	—
Net cash provided by financing activities	11.0	26.8
Effect of Exchange Rates on Cash and Cash Equivalents	(0.1)	1.6
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>56.7</b>	<b>(21.3)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>37.2</b>	<b>39.1</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 93.9</b>	<b>\$ 17.8</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  
(tabular amounts in millions of U.S. dollars and millions of shares, except per share amounts)  
(Unaudited)

1. BASIS OF PRESENTATION AND BUSINESS OVERVIEW

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, 2007 included in the Company’s Annual Report on Form 10-K filed with the SEC on August 29, 2007. 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.

Sales of our gaming machines to casinos are generally strongest in the spring and slowest in the summer months, while gaming operations revenues are generally strongest in the spring and summer. 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 three and nine months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008. 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, 2007.

We market our gaming machines in two principal ways. First, product sales include the sales of new and used gaming machines, video lottery terminals (“VLTs”), conversion kits, parts, amusement-with-prize gaming machines, gaming-related systems for smaller international casino operators and equipment manufactured under original equipment manufacturing agreements to casinos and other gaming machine operators. Second, we license our game content to third parties for distribution and we lease gaming machines and VLTs to casinos and other licensed gaming machine operators for payments based upon (1) a percentage of the net win, which is the casinos’ earnings generated by casino patrons playing the gaming machine, (2) fixed daily fees or (3) in the case of gaming machines on a wide-area progressive (“WAP”) jackpot system, a percentage of the amount wagered, or a combination of a fixed daily fee and a percentage of the amount wagered. We categorize our lease arrangements into five groups: WAP participation gaming machines; local-area progressive (“LAP”) participation gaming machines; stand-alone participation gaming machines; casino-owned daily fee games; and gaming machine and VLT leases. We refer to WAP, LAP and stand-alone participation gaming machines as “participation games” and when combined with casino-owned daily fee games, royalties we receive under license agreements with third parties to utilize our game content and intellectual property, and gaming machine, VLT and other lease revenues, we refer to this business as our “gaming operations.”

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 operations equipment and related accumulated depreciation included in the Condensed Consolidated Balance Sheets).

2. PRINCIPAL ACCOUNTING POLICIES

### Accounting for Income Taxes

We account for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as income tax assets and liabilities based upon differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed will be in effect when the differences reverse. We recognize interest and penalties related to income taxes in income tax expense.

### Share Based Compensation

The expected volatility rate has been calculated based on weekly closing prices of WMS common shares from July 1, 2003. In accordance with the guidance in Statement of Financial Accounting Standards ("SFAS") No.123 (revised 2004), "Share-Based Payment" ("SFAS 123R") we estimate expected volatility based on the historical realized volatility giving consideration to how future experience might reasonably be expected to differ from historical experience. We calculate the historical volatility beginning July 1, 2003, as we believe our stock price volatility prior to that date would be expected to differ significantly from subsequent stock price volatility as, prior to July 1, 2003, we focused on resolving issues in our legacy operating system software, whereas after that date we began introducing our new operating system, new game cabinet and new game themes, and re-emerging as the business we are today.

### Cost of Product Sales, Cost of Gaming Operations and Selling and Administrative Expenses

Cost of product sales consists primarily of raw materials, labor and overhead. These components of cost of product sales also include licensing and royalty charges, inbound and outbound freight charges, purchasing and receiving costs, inspection costs, and internal transfer costs.

Cost of gaming operations consists primarily of telephone costs, licensing and royalty charges, wide-area progressive jackpot expenses, gaming operations taxes and fees and spare parts.

Selling and administrative expenses consist primarily of sales, marketing, distribution, installation and corporate support functions such as administration, information technology, legal, regulatory compliance, human resources and finance. The costs of distribution were \$5.2 million and \$4.9 million for the three months ended March 31, 2008 and 2007, respectively and \$15.2 million and \$12.9 million for the nine months ended March 31, 2008 and 2007, respectively.

### Other Principal Accounting Policies

For a description of the Company's other principal accounting policies, see Note 2, "Principal Accounting Policies," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

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## WMS INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)  
 (tabular amounts in millions of U.S. dollars and millions of shares, except per share amounts)  
 (Unaudited)

## Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. Subsequent to the issuance of SFAS 157, the FASB issued FASB Staff Positions (“FSP”)157-2 "Effective Date of FASB Statement No. 157" (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For the instruments subject to the effective date delay under FSP 157-2, the effective date to adopt the fair value provisions for us will be July 1, 2009. We will continue to evaluate the impact of the provisions of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of SFAS 115,” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this Statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities using different measurement techniques. The fair value measurement provisions are elective and can be applied to individual financial instruments. SFAS 159 requires additional disclosures related to the fair value measurements included in the entity's financial statements. We are required to adopt this statement beginning July 1, 2008 and we continue to evaluate the impact of the provisions of SFAS 159.

## 3. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated as follows:

	Three Months Ended March 31, 2008		Nine Months Ended March 31, 2007	
Net income	\$ 18.8	\$ 12.9	\$ 45.9	\$ 32.2
After tax interest expense and amortization of issuance cost on convertible subordinated notes	0.6	0.5	1.6	1.7
Diluted earnings (numerator)	\$ 19.4	\$ 13.4	\$ 47.5	\$ 33.9
Basic weighted average common shares outstanding	50.5	49.1	50.1	48.1
Dilutive effect of stock options	1.5	1.7	1.6	2.0
Dilutive effect of restricted common stock and warrants	0.2	0.1	0.2	0.1
Dilutive effect of convertible subordinated notes	8.7	8.7	8.7	8.7
Diluted weighted average common stock and common stock equivalents (denominator)	60.9	59.6	60.6	58.9
	\$ 0.37	\$ 0.26	\$ 0.92	\$ 0.67

Basic earnings per share of common stock								
Diluted earnings per share of common stock and common stock equivalents	\$	0.32	\$	0.23	\$	0.78	\$	0.58
Common stock equivalents excluded from the calculation of diluted earnings per share because their impact would render them anti-dilutive		0.5		0.2		0.7		1.1

Included in the anti-dilutive common stock equivalents for the nine months ended March 31, 2007 are warrants to purchase 375,000 shares of common stock that were issued in September 2003 as part of an inducement to a licensor to extend its license agreement with us. The warrants' exercise price is \$23.36 per share of our common stock, subject to adjustment.

#### 4. BUSINESS ACQUISITION

On July 19, 2007, we completed the acquisition of 100% of the outstanding stock of privately held Systems in Progress GmbH ("SiP"), an Austrian-based company focused on developing and selling gaming related systems, including linked progressive systems and slot accounting systems applicable for smaller international casino operators. The total consideration for SiP, excluding acquisition costs, was \$4.7 million. SiP's former majority shareholder is a customer of WMS and \$4.5 million of the total consideration resulted from extinguishing a receivable owed by that customer to WMS for the customer's entire equity ownership in SiP. Two minority shareholders were paid equal value in cash and shares of WMS common stock that in total aggregated approximately \$0.2 million. The transaction is expected to be immaterial to our fiscal 2008 consolidated financial statements and, therefore, pro forma financial information is not provided. The business valuation is not yet complete and, therefore, the purchase price allocation is preliminary. See also Note 6, "Intangible Assets."

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## WMS INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)  
 (tabular amounts in millions of U.S. dollars and millions of shares, except per share amounts)  
 (Unaudited)

## 5. INVENTORIES

Inventories consisted of the following:

	March 31, 2008	June 30, 2007
Raw materials and work-in-process	\$ 40.7	\$ 52.5
Finished goods	24.4	26.8
Total inventories	\$ 65.1	\$ 79.3
Legacy inventory balances included in the totals above	\$ 1.7	\$ 8.5

## 6. INTANGIBLE ASSETS

## Goodwill

The changes in the carrying amount of goodwill for the nine months ended March 31, 2008 include:

Goodwill balance at June 30, 2007	\$ 17.4
Additions: SiP acquisition (see Note 4)	4.5
Foreign currency translation adjustment	3.4
Goodwill balance at March 31, 2008	\$ 25.3

As the business valuation for the SiP acquisition is not yet complete, no amounts have been allocated to other intangible assets as of March 31, 2008.

## Other Intangible Assets

Additions to other intangible assets, which include capitalized legal costs and expenditures to third parties, during the nine months ended March 31, 2008, were as follows:

	Additions
Finite lived intangible assets:	
Patents	\$ 3.3
Customer relationships	–
Royalties and licensed technologies	7.6
Trademarks	0.2
Total	\$ 11.1

## Indefinite lived intangible assets:

Brand names \$ —

A majority of the patent additions pertain to unissued patent applications and we anticipate that a majority of these patents will be amortized over four to seventeen years beginning in approximately July 2009. Royalties and licensed technologies additions have a weighted-average life of approximately 4 years.

Other intangible assets consisted of the following:

	March 31, 2008			June 30, 2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
<b>Finite lived intangible assets:</b>						
Patents	\$ 17.7	\$ (1.8)	\$ 15.9	\$ 14.4	\$ (0.9)	\$ 13.5
Customer relationships	5.2	(1.5)	3.7	4.4	(0.7)	3.7
Royalties and licensed technologies	108.2	(42.8)	65.4	100.6	(33.9)	66.7
Trademarks	0.8	(0.2)	0.6	0.7	(0.1)	0.6
<b>Total</b>	<b>\$ 131.9</b>	<b>\$ (46.3)</b>	<b>\$ 85.6</b>	<b>\$ 120.1</b>	<b>\$ (35.6)</b>	<b>\$ 84.5</b>
<b>Indefinite lived intangible assets:</b>						
Brand names	\$ 3.6	\$ —	\$ 3.6	\$ 3.0	\$ —	\$ 3.0

Certain of our other intangible assets are denominated in foreign currency and, as such, the balances above include the effects of foreign currency translation.



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## WMS INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)  
 (tabular amounts in millions of U.S. dollars and millions of shares, except per share amounts)  
 (Unaudited)

## General

The following table reconciles Goodwill and Other intangible assets presented above to Intangible assets recorded on our Condensed Consolidated Balance Sheets at:

	March 31, 2008	June 30, 2007
Goodwill	\$ 25.3	\$ 17.4
Finite lived intangible assets, net	85.6	84.5
Indefinite lived intangible assets	3.6	3.0
Less: royalties and licensed technologies, short-term included in other current assets	(6.7)	(7.9)
Total intangible assets	\$ 107.8	\$ 97.0

Amortization expense for finite lived intangible assets was \$5.5 million and \$3.4 million for the three months ended March 31, 2008 and 2007, respectively and \$10.7 million and \$9.1 million for the nine months ended March 31, 2008 and 2007, respectively.

The estimated aggregate amortization expense for finite lived intangible assets for each of the next five years is as follows:

Year ended June 30,	
2008 (fourth quarter)	\$ 2.0
2009	9.4
2010	10.3
2011	9.3
2012	6.0
2013	5.3

The estimated aggregate future intangible amortization as of March 31, 2008 does not reflect the significant commitments we have for future payments for royalties and licensed technologies. See also Note 12, "Commitments, Contingencies and Indemnifications."

## 7. INCOME TAXES

The effective income tax rate was approximately 36.9% and 34.2% for the three months ended March 31, 2008 and 2007, respectively and 35.5% and 30.5% for the nine months ended March 31, 2008 and 2007, respectively. The March 2008 three and nine month effective tax rates reflect the impact of the expiration of the export sales deduction as of December 31, 2006, the expiration of the research and development tax credit on December 31, 2007 and additional unrecognized tax benefits under FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes which we adopted effective July 1, 2007. The March 2007 three and nine month period effective tax rate reflects utilization of the export sales deduction, which expired December 31, 2006, as well as the domestic manufacturing deduction and the effect of the retroactive reinstatement of the research and development tax credit legislation back to January 1, 2006, including the credit earned for the period January 1, 2006 through June 30, 2006, which aggregated \$0.01 per diluted share, in addition to the tax credit earned during the nine month period ended March 31, 2007. At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year and the

impact of discrete items, if any, and adjust the quarterly rate, as necessary. As the research and development tax credit legislation expired on December 31, 2007, we expect our effective tax rate for the remainder of fiscal 2008 to range between 36% and 37%. The Company recognizes interest and penalties related to income taxes in income tax expense.

We adopted the provisions of FIN 48 on July 1, 2007 and as a result, we recorded a \$1.8 million increase in our liability for unrecognized tax benefits that was accounted for as a reduction in our retained earnings as of July 1, 2007. As of July 1, 2007, we had \$5.7 million of gross unrecognized tax benefits including accrued interest of \$0.4 million and zero in amounts accrued for tax penalties.

As of March 31, 2008, we had \$6.6 million of gross unrecognized tax benefits including accrued interest of \$0.8 million. The change in gross unrecognized tax benefits during the nine months ended March 2008 includes an increase of \$0.4 million in accrued interest and zero in amounts accrued for tax penalties. Of the total unrecognized tax benefits, \$6.2 million (net of the federal benefit) represents the portion that, if recognized, would impact the effective tax rate. The Company files tax returns in various jurisdictions and does not anticipate a significant change in the amount of unrecognized tax benefits within the next twelve months.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal, various state, local and foreign jurisdictions. The Company is no longer subject to any significant U.S. federal, state, local or foreign income tax examinations by tax authorities for years before fiscal 2004.

## 8. CONVERTIBLE SUBORDINATED NOTES AND REVOLVING CREDIT FACILITY

### Convertible Subordinated Notes

At March 31, 2008, we had \$115 million of convertible subordinated notes outstanding, bearing interest at 2.75%, maturing on July 15, 2010. The notes are exchangeable at any time into an aggregate of 8.7 million shares of our common stock at a conversion price of \$13.19 per share, subject to adjustment. The notes are subordinated in right of payment to all existing and future senior debt and are effectively subordinated to all of the indebtedness and liabilities of our subsidiaries. The notes are not callable. We pay interest on the notes semi-annually on January 15 and July 15 of each year, aggregating \$3.2 million annually. The conversion of the 2.75% convertible subordinated notes to common stock is dependent on individual holders' choices to convert, which is dependent on the spread of the market price of our stock above the conversion strike price of \$13.19 per share, and would reduce our annual interest expense. None of the holders have converted any of their convertible subordinated notes into our common stock. Our convertible notes are conventional convertible debt instruments in which the holder may only realize the value of the conversion option by exercising the option and receiving a fixed number of shares of our common stock.

We have no maturities of debt or sinking fund requirements through June 30, 2010.

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## WMS INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)  
 (tabular amounts in millions of U.S. dollars and millions of shares, except per share amounts)  
 (Unaudited)

## Revolving Credit Facility

We have a multi-year revolving credit agreement, as amended, that provides for \$100 million of unsecured borrowings through December 31, 2009, including the potential to expand the line up to \$125 million. Up to \$10 million of the credit facility is available for the issuance of letters of credit. The credit agreement requires that we maintain certain financial ratios, which could limit our ability to declare dividends or make any distribution to holders of any shares of capital stock, or redeem or otherwise acquire such shares of our Company. At March 31, 2008, approximately \$118.7 million was available for such purposes under the most restrictive of these covenants. No amounts were outstanding under the revolving credit facility as of March 31, 2008 and June 30, 2007.

## 9. STOCKHOLDERS' EQUITY

## Common Stock Repurchase Program

On August 6, 2007, our Board of Directors authorized the repurchase of up to \$50 million of our common stock over the following twenty-four months. This authorization replaces the \$35 million authorization that expired on August 8, 2007. Pursuant to the authorization, purchases may be made from time to time in the open market, through block purchases or in privately negotiated transactions. The timing and actual number of shares repurchased will depend on market conditions. During the three months ended March 31, 2008, we purchased 139,680 shares for approximately \$5 million at an average cost of \$35.72 per share. During the nine months ended March 31, 2008, we purchased 445,781 shares for approximately \$15 million at an average cost of \$33.65 per share. As of March 31, 2008, we had approximately \$35 million remaining under this share repurchase authorization.

## Equity Compensation Plan

During the nine months ended March 31, 2008, we granted a total of 592,138 stock options to certain employees of our Company, Board of Director members, and to a former Board of Director member who became a director emeritus. The number of options awarded to each person varied. The options vest from a range of immediately to four years, with expirations ranging from 5-7 years from date of grant. The options range in fair value from \$7.96 - \$13.62 per share based on the Black-Scholes calculation using the following range of assumptions depending on the characteristics of the option grant: risk-free interest rates between 2.37% - 4.94%; expected life between 2.50 - 4.75 years; expected volatility of 0.35; and 0.0% dividend yield.

	Number of Stock Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(1)
Stock options outstanding at June 30, 2007	5.3	\$ 18.16		
Granted	0.6	31.77		
Exercised	(1.1)	16.07		
Expired or Cancelled				

Forfeited	(0.1)	23.67			
Stock options outstanding at March 31, 2008	4.7	\$ 20.29	6.3	\$ 74.4	
Stock options exercisable at March 31, 2008	2.8	\$ 17.63	5.8	\$ 50.9	

(1) Intrinsic value is defined as the amount by which the fair value of the underlying stock exceeds the exercise price of a stock option.

On September 18, 2007, we granted 7,336 shares of restricted stock to each of our non-employee directors (for a total of 58,688 shares of restricted stock granted). The restrictions will lapse over two years, 50% on September 18, 2008 and 50% on September 18, 2009. The grant-date fair value of our stock was \$30.67 per share.

On September 19, 2007, our Board of Directors approved the fiscal 2008 equity grants to select employees under our long-term incentive program. The value granted to each employee was based on a percentage of each employee's base salary. The grant date fair value of our stock was \$30.55 and the value was granted through three equity components – stock options (covered in the table above) restricted shares, and equity-based performance units – as follows:

- Ø 89,911 shares of restricted stock, which restrictions will lapse evenly over four years.
- Ø 89,911 equity-based performance units, which will vest upon achievement of performance goals set by the Board. The goals are based on levels of total revenue and earnings per share over the period July 1, 2007 through June 30, 2010. The number of shares of stock awarded to participants is dependent upon the achievement of the performance goals and the extent to which each goal is achieved or exceeded, and can result in shares issued up to 200% of the targeted number of shares under each grant.

Total share-based payment expense for the three months ended March 31, 2008 and 2007 was \$3.4 million and \$2.5 million, respectively, and for the nine months ended March 31, 2008 and 2007 was \$11.5 million and \$9.1 million, respectively. A portion of the increase in expense in the three and nine month periods ended March 31, 2008 relates to the Company recording a provision for equity-based performance units based on the current assessment of achievement of the performance goals. Prior to the December 2007 quarter, the Company concluded the achievement of the performance goals was not probable.