American Water Works Company, Inc.
Form S-1
December 18, 2008
Table of Contents

As filed with the Securities and Exchange Commission on December 17, 2008.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**4941**	**51-0063696**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1025 Laurel Oak Road

Voorhees, NJ 08043

(856) 346-8200

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Donald L. Correll

President and Chief Executive Officer

American Water Works Company, Inc.

1025 Laurel Oak Road

Voorhees, NJ 08043

(856) 346-8200

(Name and address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

William V. Fogg, Esq.	**George W. Patrick, Esq.**	**Robert E. Buckholz, Jr., Esq.**
Cravath, Swaine & Moore LLP	**Senior Vice President,**	**Sullivan & Cromwell LLP**
Worldwide Plaza	**General Counsel and Secretary**	**125 Broad Street**
825 Eighth Avenue	**American Water Works Company, Inc.**	**New York, NY 10004**
New York, NY 10019	**1025 Laurel Oak Road**	**(212) 558-4000**
(212) 474-1000	**Voorhees, NJ 08043**	
	(856) 346-8200	

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee(3)**
Common Stock, par value $0.01 per share	$690,000,000	$27,117

(1) Includes shares to be sold upon exercise of the underwriters option to purchase additional shares. See Underwriting.

(2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(o) of Regulation C under the Securities Act of 1933, as amended.

(3) Calculated pursuant to Rule 457(o) of the Securities Act. The registrant previously paid a fee of $30,700 with a registration statement on Form S-1, File No. 333-145757, initially filed on August 29, 2007, pursuant to which no securities were sold. Pursuant to Rule 457(p) of the Securities Act, $27,117 of the previously paid fee is offset against the registration fee otherwise due for this registration statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities, and we and the selling stockholder are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to completion, dated December 17, 2008.

(Preliminary Prospectus)

Shares

American Water Works Company, Inc.

Common Stock

We are selling shares and the selling stockholder is selling shares of common stock in this offering. We will not receive any of the proceeds from the sale of shares by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol AWK. The last reported sale price on December 17, 2008 was $21.82 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 10 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission, any state securities commission nor any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	**Total**
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to the Company	$	$
Proceeds, before expenses, to the selling stockholder	$	$

The underwriters may also purchase up to an additional shares of common stock from the selling stockholder at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus.

The underwriters expect to deliver the shares against payment therefor in New York, New York on , 2009.

Merrill Lynch & Co. **Citi** **Goldman, Sachs & Co.**

Prospectus dated , 2009.

Table of Contents

TABLE OF CONTENTS

Our regulated subsidiaries are subject to economic regulation by state PUCs in Arizona, California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maryland, Missouri, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Virginia and West Virginia. Some of these states have enacted laws that require regulatory approval for the acquisition of control of any regulated utility. In those states, obtaining control of the parent or any other company that controls a regulated utility also requires prior regulatory approval. The threshold for a change in control is a fact-specific inquiry that varies by state. For example, in some states, a presumption of control will arise when an acquiring party acquires more than 9.9% of the voting securities of the regulated utility or the controlling entity. In addition to ownership, other states may analyze the degree of influence or control an acquiror may exert over the company. Any person acquiring our common stock in this offering or in any other purchase of our common stock in a quantity sufficient to trigger a change in control under state law would need the prior approval of the applicable state PUC.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It may not contain all the information that is important to you. You should carefully read this entire prospectus, including the section captioned Risk Factors and the consolidated financial statements and notes to the consolidated financial statements, before making an investment decision. For the definition of certain terms used in this prospectus, please refer to the definitions set forth in the section entitled Glossary.

Our Company

Founded in 1886, American Water Works Company, Inc., which we refer to, together with its subsidiaries, as American Water or the Company, is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our approximately 7,000 employees provide approximately 15 million people with drinking water, wastewater and other water-related services in 32 states and Ontario, Canada.

Our primary business involves the ownership of regulated water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers, treating and delivering over one billion gallons of water per day. Our subsidiaries that provide these services are generally subject to economic regulation by state Public Utility Commissions, which we refer to as state PUCs, in the states in which they operate. In 2007, we generated $2,214.2 million in total operating revenue, representing approximately four times the operating revenue of the next largest investor-owned company in the United States water and wastewater business, $15.1 million in operating income, which includes $509.3 million of impairment charges relating to continuing operations, and a net loss of $342.8 million. For the nine months ended September 30, 2008 we generated $1,768.4 million in total operating revenue, $315.9 million in operating loss, which includes $750.0 million of impairment charges, and a net loss of $598.8 million. Our Regulated Businesses, operating in 20 states in the United States, generated 89.8% and 89.3% of our total operating revenue in 2007 and for the nine months ended September 30, 2008, respectively.

We also provide services that are not subject to economic regulation by state PUCs. Our Non-Regulated Businesses include our Contract Operations Group, our Applied Water Management Group and our Homeowner Services Group. In 2007 and for the nine months ended September 30, 2008, our Non-Regulated Businesses generated $242.7 million and $202.1 million, respectively, in operating revenue, prior to inter-segment eliminations.

Our Industry

The United States water and wastewater industry has two main segments: (i) utility, which involves supplying water and wastewater services to customers, and (ii) general services, which involves providing water and wastewater-related services, including engineering, consulting and sales of water infrastructure and distribution products, such as pipes, to water and wastewater utilities and other consumers on a fee-for-service contract basis.

The utility segment includes municipal systems, which are owned and operated by local governments, and investor-owned systems. Government-owned systems make up the vast majority of the United States water and wastewater utility segment, accounting for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems.

The utility segment is characterized by high barriers to entry, including high capital spending requirements. Investor-owned water and wastewater utilities also face regulatory approval processes in order to do business, which may involve obtaining relevant operating approvals, including certificates of public convenience and necessity (or similar authorizations), pursuant to which state PUCs grant investor-owned utilities the right to

Table of Contents

provide service within an authorized service area. The utility segment of the United States water and wastewater industry is highly fragmented, with approximately 52,000 community water systems and approximately 16,000 community wastewater facilities, according to the United States Environmental Protection Agency, or EPA, and therefore presents opportunities for consolidation. Larger utilities, such as ours, that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to water and wastewater systems.

Our Strengths

We believe that we are distinguished by the following key competitive strengths:

Market leader with broad national footprint and strong local presence. We are the largest and most geographically diversified investor-owned water and wastewater utility company in the United States. Our scale provides us with a competitive advantage in procuring goods and services reliably and economically. Our geographic scope enables us to capitalize effectively on growth opportunities across our service areas, while helping to insulate us from adverse conditions relating to regulatory environments, weather and economic conditions in any one geographic area. Also, our active community involvement supports customer satisfaction.

Regulated Businesses provide financial stability**.** Our Regulated Businesses provide a high degree of financial stability because (i) high barriers to entry insulate us from competitive pressures, (ii) economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process and (iii) our largely residential customer base promotes consistent operating results.

Experience in securing appropriate rates of return and promoting constructive regulatory frameworks. We seek appropriate rates of return on our investment and a return of our investment and recovery of prudently incurred operating expenses from state PUCs in the form of rate increases, which we refer to as rate relief. We have a strong track record of providing reliable service at cost-effective rates, which has generally allowed us to maintain positive relations with regulators. We have generally been granted rate relief in a timely manner after application.

Significant growth opportunities with a low risk business profile. We believe we are well positioned to benefit from favorable industry dynamics in the water and wastewater sectors, which provide significant opportunities for future growth in both our Regulated Businesses and complementary Non-Regulated Businesses.

- We intend to invest capital prudently to enable us to continue to provide essential services to our customers in the water and wastewater utility industry and to municipalities in meeting the capital challenges of making substantial required infrastructure upgrades.

- Our Regulated Businesses provide a large platform on which to grow both organically and through consolidation from among the numerous water and wastewater systems in the United States.

- Our national footprint increases our ability to make opportunistic investments in non-regulated businesses that are complementary to our Regulated Businesses.

Experienced senior management team. Our four most senior executives, Donald L. Correll, President and Chief Executive Officer, Ellen C. Wolf, Senior Vice President and Chief Financial Officer, John S. Young, President, American Water Services, and Walter J. Lynch, President, Regulated Operations, have an average of over 20 years of experience in the utilities industry. Our 14 state presidents have an average of 25 years of experience in the utilities industry.

Industry leader in water quality, testing and research. We are experts in water quality testing, compliance and treatment and have established and own industry-leading water testing facilities. Our technologically advanced quality control and testing laboratory in Belleville, Illinois is certified in 23 states and Puerto Rico.

Table of Contents

Our Strategy

Our goal is to consistently provide customers with safe, high quality drinking water and reliable water and wastewater services. Our business strategies include:

- continuing to invest prudently in regulated water and wastewater infrastructure projects;
- earning an appropriate rate of return on our investments from state PUCs;
- growing our Regulated Businesses through acquisitions; and
- continuing to pursue public/private partnerships, including O&M and military contracts and services, and other non-regulated businesses that are complementary to our Regulated Businesses.

The Transactions

American Water is currently an indirect majority-owned subsidiary of RWE Aktiengesellschaft, which we refer to as RWE, a stock corporation incorporated in the Federal Republic of Germany whose shares are publicly listed on the Frankfurt and Düsseldorf stock exchanges and other German stock exchanges as well as on the Zurich stock exchange. RWE is one of Europe s leading electricity and gas companies and supplies 20 million customers with electricity and 10 million customers with gas in Germany, the United Kingdom and Central and Eastern Europe. On November 4, 2005, RWE announced its intention to exit its water activities in the United States and the United Kingdom in order to focus on its core European electricity and gas business and has since then completed the divestiture of its water business in the United Kingdom. As a part of this strategy, RWE sold approximately 63.2 million shares in the initial public offering of American Water s common stock in April 2008. Of the approximately 63.2 million shares sold, approximately 5.2 million were sold pursuant to the partial exercise of the underwriters over-allotment option on May 27, 2008. RWE intends to fully divest its remaining ownership of American Water through the consummation of additional public offerings of common stock of American Water as soon as reasonably practicable, subject to market conditions, which, together with RWE s sale of shares in the initial public offering, we refer to as the RWE Divestiture. As of September 30, 2008, RWE owned approximately 60% of American Water s outstanding shares of common stock. Upon the consummation of this offering, RWE will own approximately % of our common stock (or approximately % if the underwriters option to purchase additional shares is exercised in full).

On September 28, 2007, Thames Water Aqua US Holdings, Inc., which we refer to as Thames US Holdings, at the time an indirect wholly-owned subsidiary of RWE, was merged with and into American Water with American Water being the surviving entity, which we refer to as the Merger.

On September 20, 2007, American Water Capital Corp., our wholly-owned financing subsidiary, which we refer to as AWCC, issued $1,750.0 million of debt to RWE, which we refer to as the RWE redemption notes, which was used to fund the early redemption of $1,750.0 million of preferred stock held by RWE. In addition, on October 22, 2007 we used the net proceeds from the issuance of $1,500.0 million aggregate principal amount of senior notes of AWCC, which we refer to as the new senior notes, to fund the repayment of $1,286.0 million aggregate principal amount of RWE redemption notes and $206.0 million (including after tax gains of $2.2 million, net of $1.4 million of tax) aggregate principal amount of other debt owed to RWE, which we refer to as the RWE notes. The new senior notes were not registered under, and were offered in reliance on an exemption from the registration requirements of, the Securities Act of 1933, as amended, which we refer to as the Securities Act.

On November 7, 2007, we effected a 160,000-for-1 stock split.

Table of Contents

In December 2007, we used the net proceeds from the issuance of approximately $415.0 million of commercial paper and $49.0 million of excess cash to fund the repayment of approximately $464.0 million of RWE redemption notes.

These financing transactions, together with the non-cash equity contribution to the Company by RWE of $100.0 million of debt of our subsidiaries held by RWE on March 29, 2007, the $550.0 million cash equity contribution to the Company by RWE on March 29, 2007, which was used to pay down $232.5 million of short-term debt and the remainder used for general working capital purposes and the cash equity contribution to the Company by RWE of $266.0 million on December 21, 2007, which was used to pay down $266.0 million of commercial paper, are collectively referred to as the Refinancing.

On May 13, 2008, RWE made a cash equity contribution of $245.0 million to us, which we refer to as the Equity Contribution, in order to ensure compliance with relevant state PUC capital structure requirements. On November 26, 2008, AWCC issued $75.0 million of 10% Senior Monthly Notes due 2038, which we refer to as the senior monthly notes, to fund the repayment of $72.0 million of short-term debt. The Equity Contribution, the Refinancing, the 160,000-for-1 split of common stock, the Merger, the initial public offering, the issuance of the senior monthly notes and the issuance and sale of shares by us in this offering and our application of our proceeds therefrom are collectively referred to in this prospectus as the Transactions.

Recent Developments

On December 8, 2008, the New Jersey Board of Public Utilities approved new rates for New Jersey-American Water Company, our subsidiary. The increase is expected to generate additional annualized revenues of $72.1 million. In November 2008, the Missouri Public Service Commission approved new rates for Missouri American Water Company, our subsidiary. The increase is expected to generate additional annualized revenues of $34.5 million.

In September 2008, our Contracts Operation Group was awarded two United States military contracts for operation and maintenance of the water and wastewater systems at Fort Polk and Fort Hood Army Installations. The estimated gross revenues we will receive from these 50-year fixed price contracts which are subject to modification as described below will be approximately $348 million and $329 million for Fort Polk and Fort Hood, respectively. All of the contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of a default or non-performance by the subsidiary performing the contract. In either event, we are entitled to recover the remaining amount of our capital investment pursuant to the terms of a termination settlement with the U.S. government at the time of termination as provided in each of the contracts. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions.

Table of Contents

Organizational Structure

American Water is currently a direct majority-owned subsidiary of RWE Aqua Holdings GmbH, which we refer to as the selling stockholder, a limited liability company organized under the laws of the Federal Republic of Germany and a direct wholly-owned subsidiary of RWE. The following chart sets forth our organizational structure after giving effect to the consummation of this offering:

The Selling Stockholder

The selling stockholder, RWE Aqua Holdings GmbH, a limited liability company organized under the laws of the Federal Republic of Germany and a direct wholly-owned subsidiary of RWE, currently owns approximately 60% of our outstanding common stock. Upon consummation of this offering, the selling stockholder will continue to own approximately % of our outstanding common stock (or approximately % if the underwriters exercise their option to purchase additional shares in full). RWE intends to fully divest its remaining ownership of American Water as soon as reasonably practicable, subject to market conditions.

Our Executive Offices

We are a corporation incorporated under the laws of Delaware. Our principal executive offices are located at 1025 Laurel Oak Road, Voorhees, NJ 08043. Our telephone number is (856) 346-8200. Our internet address is www.amwater.com. **The information contained on or accessible from our website does not constitute a part of this prospectus and is not incorporated by reference herein.**

American Water and its logos are our trademarks. Other service marks, trademarks and trade names referred to in this prospectus are the property of their respective owners.

Table of Contents

THE OFFERING

Common stock offered by us	shares
Common stock offered by the selling stockholder	shares
Common stock to be outstanding after this offering	shares
Option to purchase additional shares	The underwriters have an option to purchase a maximum of additional shares from the selling stockholder.
Use of proceeds	We estimate that the net proceeds from the offering of shares by us will be approximately $290.4 million. We intend to use these net proceeds to fund the repayment of $290.4 million of commercial paper and short-term borrowings. We will not receive any proceeds from the offering of shares by the selling stockholder. See Use of Proceeds.
Listing	Our common stock is listed on the New York Stock Exchange, which we refer to as the NYSE, under the symbol AWK.
Dividend policy	Subject to applicable law and the discretion of our board of directors, we will pay cash dividends at a rate of approximately $0.20 per share per quarter on our common stock for the next three quarters and $0.21 per share for the quarter thereafter, to be paid approximately 60 days after the end of each fiscal quarter. The declaration, payment and amount of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our financial condition and results of operations, liquidity requirements, capital requirements of our subsidiaries, legal requirements, regulatory constraints and other factors our board of directors deems relevant. See Dividend Policy, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations Dividends.
Risk factors	See Risk Factors for a discussion of factors you should consider before investing in our common stock.

All information in this prospectus, unless otherwise indicated or the context otherwise requires:

- assumes an offering price of $21.82 per share, which is the last reported sale price on December 17, 2008;
- assumes no exercise of the underwriters option to purchase additional shares;
- gives effect to the 160,000-for-1 stock split effected on November 7, 2007; and

excludes, (i) 2.0 million shares reserved for issuance under our employee stock purchase plan and (ii) 6.0 million shares of common stock reserved under our 2007 Omnibus Equity Compensation Plan, under which 269,856 restricted stock units, 89,921 restricted stock awards and 2,082,573 options have been granted.

Table of Contents

SUMMARY HISTORICAL CONSOLIDATED AND UNAUDITED PRO FORMA FINANCIAL DATA

The following table presents our summary historical consolidated financial data and summary unaudited pro forma consolidated financial data at the dates and for the periods indicated. The historical data as of December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006 and 2007 have been derived from our audited historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus. The historical data as of September 30, 2008 and for the nine months ended September 30, 2007 and 2008 have been derived from our unaudited historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus, which have been prepared on a basis consistent with our annual consolidated financial statements. In the opinion of management, such unaudited financial data reflect all adjustments, consisting only of normal and recurring adjustments, necessary for fair presentation of the results for those periods. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year or any future period. See footnote 1 to the table below.

The summary unaudited pro forma financial data have been derived from our historical financial statements and adjusted as described below. The summary unaudited pro forma financial data have been prepared to give effect to the Transactions as if they had occurred on January 1, 2007, in the case of the summary unaudited pro forma statement of operations data, and have been prepared to give effect to this offering as if it had occurred on September 30, 2008, in the case of the summary unaudited pro forma balance sheet data. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The summary unaudited pro forma financial data are for informational purposes only and do not purport to represent what our results of operations or financial position actually would have been if the Transactions had occurred at any date, and such data do not purport to project the results of operations for any future period. See Unaudited Pro Forma Condensed Consolidated Financial Information.

Our historical financial data are not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand-alone entity during the periods shown. Because the data in this table is only a summary and does not provide all of the data contained in our financial statements, the information should be read in conjunction with Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes thereto appearing elsewhere in this prospectus.

Table of Contents

	For the Years Ended December 31,			For the Nine Months Ended September 30,		Pro Fo Y E Decem 2
	2005	2006	2007	2007 (unaudited)	2008 (unaudited)	(una
	(in thousands, except per share data)					
	$ 2,136,746	$ 2,093,067	$ 2,214,215	$ 1,660,394	$ 1,768,377	$ 2,2
	1,201,566	1,174,544	1,246,479	910,304	984,063	1,2
	261,364	259,181	267,335	202,463	199,599	2
	183,324	185,065	183,253	140,910	151,074	1
	(6,517)	79	(7,326)	(6,821)	(413)	
	385,434	221,685	509,345	243,345	750,000	5
	2,025,171	1,840,554	2,199,086	1,490,201	2,084,323	2,2
	111,575	252,513	15,129	170,193	(315,946)	
	(345,257)	(365,970)	(283,165)	(211,709)	(212,718)	(2
	(4,367)	(5,062)	(4,867)	(3,624)	(4,360)	
	13,898	9,581	17,384	11,532	17,808	
	(335,726)	(361,451)	(270,648)	(203,801)	(199,270)	(2
	(224,151)	(108,938)	(255,519)	$ (33,608)	$ (515,216)	$ (2

y of our participation game themes we utilize popular brands and intellectual property from
ies. As the exclusive licensee of the *MONOPOLY* brand for use with gaming machines, we
verted a popular board game brand into a successful line of superior-earning gaming
. In fiscal 2009, we announced an extension and expansion of our agreement with Hasbro
Hasbro International, Inc. (collectively, Hasbro), which allows us to continue to use the
OLY brand through calendar 2016 with options through 2019 and also allows us to use
f their other board game brands, such as *BATTLESHIP*®

10

f Contents

E®. We also have licensed additional brands, including *THE WIZARD OF OZ, JOHN* *TOP GUN,* and *POWERBALL* which we use to create series of new participation games these brands. By combining the name recognition of these brands with creative game and design, we are able to lease these products to casinos and other licensed gaming operators as participation games, generating a high-margin recurring revenue stream for s, as well as for the casinos. We continue to pursue new licensed brands based on the from focus group testing of casino patrons.

iscal 2007, we began introducing new product lines in our participation business that ur licensed and internally developed portfolio of intellectual properties and technologies. rticipation products provided casino patrons new gaming experiences that they could not on the products that we sell to casinos. These intellectual properties and technologies d elements of the foundational technologies for networked gaming, in advance of when the ed systems will be commercialized. Subsequently we have introduced new games for each product lines and in fiscal 2008 we began introducing participation products that combined ologies of two of these new product lines in one product. In fiscal 2009, we introduced a ew gaming platform: *Adaptive Gaming*. These new participation product lines are as

ommunity Gaming®*:* The first of the new product lines was introduced in the September 006 quarter with the *MONOPOLY Big Event* game. *Community Gaming* is intended to uild a table-game-like camaraderie amongst the players as they all play for a common onus outcome. The *Community Gaming* experience consists of a bank of gaming machines nked to an overhead video screen that displays the bonus round. When the *Big Event* bonus ggers, a server that controls the overhead video screen enables all qualifying players on the nk to enter the bonus round and win together. *MONOPOLY Big Event* has been providing ayers with their first exposure to the excitement of a true communal gaming experience, d we followed this in fiscal 2008 with *PRESS YOUR LUCK* and *Bigger Bang Big Event* ames. This new platform has been the primary driver of the growth in our installed footprint stand-alone participation gaming machines. We had more than 2,000 *Community Gaming* aming machines installed in our participation base at June 30, 2009.

ensory Immersion: The second new product line to debut was our *Sensory Immersion* atform with the *TOP GUN* game launched in March 2007, and we followed this with *THE IZARD OF OZ* game launched in October 2007. This new product line utilizes our new *PU-NXT2* operating system with real-time, 3-D animation and *BOSE3Space* audio system offer a multi-sensory player experience. In fiscal 2009, we launched *DIRTY HARRY*®*: AKE MY DAY and TIME MACHINE.* At June 30, 2009, our installed base of *Sensory mersion* gaming machines was over 1,600 units. More importantly, the uniqueness of this atform coupled with its game mechanics is providing casino customers with high coin-in d net win, and was a significant contributor to our increased average daily revenue per unit fiscal 2008 and 2009.

ransmissive Reels®*:* This product line was the third new product line and was launched in e June 2007 quarter. By overlaying video animation directly over mechanical reels, *ransmissive Reels* combines the appeal of mechanical reel gaming with the visually ngaging interactive real-time, 3-D animation of video gaming machines. In fiscal year 009, we launched *THE WIZARD OF OZ Transmissive Reels* gaming machine. At June 30, 009, we had more than 1,700 of the *Transmissive Reels* gaming machines installed.

daptive Gaming: We conducted a field trial of our fourth new participation product line in e third and fourth quarters of fiscal 2008 and launched this product line in the September 008 quarter with the *STAR TREK* game. With this new product line, a player can establish a nique user name and password to log into any *STAR TREK* game on this product line in any risdiction. Through connectivity of these games through our wide-area network to WMS ata centers, once the player terminates a gaming session, the player s status will be saved. hen when the same player logs on to another *STAR TREK* game at that same casino or in ny other casino and uses the same unique user name and password, the player s game will art again where the player last ended the game. In addition, if the player completes all of e bonus rounds in the first episode of *STAR TREK*, the second episode is enabled for that ayer

11

f Contents

nd when all of the bonus rounds in the second episode are completed, a third *STAR TREK* isode is enabled for that player. We will be introducing new episodes of the *STAR TREK* ame in fiscal 2010, along with launching another series of games using this platform. In the ne 2009 quarter, we launched *Reel em In Compete to Win* that uses the *Adaptive Gaming* echnology. At June 30, 2009, we had more than 700 of *Adaptive Gaming* gaming machines stalled.

nding margins and revenue growth, along with the improved return on capital deployed in ng operations business also were key contributors behind the significant operating cash generated. By continuing to focus on return on investment in our participation business and ng innovative new participation games and products, we intend to continue to grow our tion revenues, profitability and cash flows.

Four: *Drive Margin Improvements*: Our gross margin and operating margins have shown ng growth over the last three years. Total gross margin, exclusive of depreciation and on expense, was 63.5%, 59.4%, and 56.5% for fiscal 2009, 2008 and 2007, respectively, r operating margin was 19.3%, 16.1%, and 13.7% for the same periods, respectively. We oss-functional teams focused on margin improvement and several of our strategy ent projects focus on different aspects of margin improvement. We benefit from the higher selling price of new units, along with higher-margin premium priced products that we sell er net revenue per day from our participation games also contributes to higher margin. We to implement lean sigma initiatives (e.g. processes which help us focus on improving nd eliminating non-value added steps) to further our process improvement initiatives and the flow of our business transactional processes. We also expect to benefit from raw sourcing initiatives and from an expanded volume of business, which should result in olume discounts of raw material component parts from our suppliers and enable us to ur manufacturing overhead cost over a larger number of units thereby reducing cost per continuing to drive margin improvements, we believe we will be able to continue to net income and generate the necessary capital to fund the other elements of our business

Five: *Increase Cash Flow from Operations:* Our cash flow from operations has remained roughout the past three fiscal years as a result of increased net income and non-cash s and improved working capital utilization. Our cash flow from operations was $179.2 n fiscal 2009, $186.2 million in fiscal 2008 and $118.9 million in fiscal 2007. Our fiscal h flow from operations approximated the prior year even as we implemented a program to provide a higher amount of financing terms to select customers given the impact that gling economy was having on their businesses. While we selectively granted a higher level ing terms, our total receivable days sales outstanding was 119 days at June 30, 2009 up 10 n 109 days at June 30, 2008, and the aging of our receivables improved between those time despite the financial challenges that our customers faced. In fiscal 2009, we increased our y turns and better managed our accounts payable. Due to increased profitability, working anagement and containment of capital spending, our cash and cash equivalents balance, of restricted cash and cash equivalent, increased from $53.2 million at June 30, 2007 to illion at June 30, 2008 and to $154.7 million at June 30, 2009. We expect that with the d execution of all of the business strategies discussed above, that our cash flow from s will continue to increase in fiscal 2010.

Design, Research and Product Development

gners, engineers and artists build upon over 60 years of experience that we, together with ecessors, have in designing and developing fun, humorous and exciting games. We are ly developing new games in order to refresh the installed base of our gaming machines and nting new hardware, operating system and software technologies and functionality to player entertainment. We utilize our unique *Player Driven Innovation* approach to the ment of new games and technologies, which has resulted in the creation of innovative . We also perform market tests of our products with the cooperation of casino operators to iability and player appeal. Our gaming machines and games are

12

f Contents

esigned and programmed by our internal engineering staff and game development studios. e design teams operate in a studio environment that encourages creativity, productivity and on among designers.

ago research and development facility is a state-of-the-art technology campus that houses our research and development team, including four game development studios. We have al game development studios in Las Vegas, London, Sydney and the Netherlands and al research and development staff in Atlanta, Chicago, Las Vegas, Reno and Austria. Each ame development studios works concurrently on multiple games and is staffed with rs, software developers, graphic artists, mathematicians and game developers. In some e may outsource testing and graphic design functions to independent firms under contract to dition, we have a defined process to review new game ideas submitted by third parties for ation by us to license, develop and commercialize.

we opened the *Casino Evolved Advanced Technology Lab* (CEATL) at our technology n Chicago, Illinois. The CEATL is a dynamic collaborative research and development ry focused on advancing the development of products that highlight our leadership in the casino slot floor to a networked environment for the benefit of casino operators and tomers. It also serves as a platform for the future evolution of products and services that v entertaining gaming content to be enabled on new platforms.

iscal 2009, 2008 and 2007, we expensed $98.4 million, $79.9 million, and $58.1 million, vely, of design, research and product development costs. We expect amounts spent on n and development will continue to grow in the future as we expand our product ment initiative by designing games and gaming machines that enhance the player nce and drive profitability for us and casino operators. For further discussion on nabled network gaming (NG), see Item 7 Management Discussion s and Analysis of Condition and Results of Operations.

Sales and Marketing

uthorized to sell or lease our gaming machines to casinos in 192 tribal jurisdictions, 32 isdictions, and 129 other legalized gaming jurisdictions worldwide. See Government on General below. In most gaming jurisdictions, we sell our gaming machines directly, an through the use of distributors, which we believe allows us to provide superior customer nd enhances profitability.

r introduction of the *Bluebird* cabinet and *CPU-NXT* in September 2003 through June 30, e shipped over 153,000 *Bluebird* gaming machines and *CPU-NXT* upgrade kits for our aming machines. In addition, since the launch of our *Bluebird2* gaming machine in the er 2008 quarter through June 30, 2009, we have shipped over 9,200 units, and *Bluebird2* machines accounted for 35% of our new unit shipments in fiscal 2009. We expect *2* gaming machines to grow as a percentage of total new unit sales over the coming years ners transition to this new gaming machine.

nd lease our gaming machines through 30 salespeople in offices in several United States s, and 13 salespeople in international locations. Our salespeople earn a salary and ions. The sale of gaming machines takes place throughout our fiscal year and the order ically range from a small quantity of units to over 1,000 units. We conduct one-on-one s with our customers to demonstrate our products at their locations, host customers at emonstrations in our offices and at other locations, and participate in various trade shows cally and internationally each year. In certain cases, we participate in responding to ive requests for proposals from private and public entities who are seeking to purchase machines. We advertise in trade and consumer publications that appeal to casino operators, ployees and casino patrons. Usually, with the launch of a featured product or product , we will design web-based learning experiences for both employees and customers. We atic and interactive web-based micro sites as a means to educate our customers and players r products, and allow them to learn and explore different aspects of our products at their nce, while also providing instant win and sweepstakes prizes.

f Contents

service team is a customer-focused organization, responsible for attending to the needs of omers. Our field service technicians install, remove and convert gaming machines at the r s request, work with our customers in performing routine maintenance on participation machines owned by us that are located at our customers casinos, initiate sales of nent parts and conversion kits, and assist with general maintenance of gaming machines y our customers. We also have a centralized call center that allows us to be even more ve to our customers needs.

nse to rapidly changing slot technology and the need for casinos to have vendor-neutral, nt, and easily accessible training specifically targeted to slot floor personnel, we launched *chine University®* (SMU) in fiscal 2007. SMU is an interactive, online training and ion program (www.slotmachineuniversity.com) applicable for professionals working in all f slot technology and is the first of its kind to meet the strict requirements for the onal Association for Continuing Education and Training accreditation. SMU offers a l learning solution that helps individuals working in slot technology to support and the wide variety of gaming machines and networked systems used in the gaming industry. opics encompass basic slot functionality appropriate for beginning technicians to advanced ng skills required for the future NG environment. As we continue to grow our business onally, we intend to translate SMU into various languages to support our customers. are offered on a subscription basis, and we believe this service demonstrates our nent to listen and respond to our customers evolving needs.

national markets, we have translated our most popular games into Spanish, Portuguese, talian and Mandarin Chinese. No single country outside of the United States accounted for more of our revenues in fiscal 2009, 2008 or 2007. Revenues derived from customers of the United States accounted for approximately $155 million, $156 million and $135 or fiscal 2009, 2008 and 2007, respectively. Geographic revenue information is determined ry of destination. Substantially all international sales are made in United States dollars. from participation games has been primarily limited to Canada and the United States, and ct this trend to continue. See Note 15, Information on Geographic Areas, to our ated Financial Statements for further information on international sales.

rally offer customers payment terms of 30 to 90 days from the date of invoice. In certain ances, we offer extended payment terms typically for up to one year but in limited cases up years, in which case we usually charge interest to the customer. In fiscal 2009, due to the economy and credit availability challenges, we implemented a program to increase the f financing terms offered to select customers. We expect to continue this program in fiscal il the economy and availability of credit improves. No single customer accounted for 10% f our revenues in fiscal 2009, 2008 or 2007.

Competition

ning machine market is highly competitive and is characterized by the continuous ion of new games and new technologies. Our ability to compete successfully in this market in large part, upon our ability to:

evelop and offer games and gaming machines with higher earnings performance than the ames and gaming machines from our competitors;

eate an expanding and constantly refreshed portfolio of games;

entify and develop or obtain rights to commercially marketable intellectual properties; and

lapt our products for use with new technologies.

nplement product innovation and reliability;

14

f Contents

ffer mechanical and electronic reliability;

enerate brand recognition;

nplement effective marketing and customer support; and

ffer competitive prices and lease terms.

nate that about 25 companies in the world manufacture gaming machines and VLTs for l gaming markets. Of these companies, we believe that Aristocrat, Bally Technologies, nami Co. Ltd., Lottomatica s G-Tech Holdings subsidiaries Atronic Casino Technology and Manufacturing Inc., Multimedia Games, Inc., Novomatic Group of Companies, and WMS ajority of this worldwide market. In the categories of video and mechanical reel gaming s, we compete with market leader IGT, as well as Aristocrat, Lottomatica s Atronic Casino ogy subsidiary, Bally Technologies, Franco Gaming Ltd., Konami Co. Ltd., Multimedia nc., the Novomatic Group of Companies, and Unidesa Gaming and Systems. In the VLT we compete primarily with Bally Technologies, IGT, Lottomatica s G-Tech Holdings and bsidiaries, and Scientific Games Corp.

npetitors vary in size from small companies with limited resources to a few large tional corporations with greater financial, marketing and product development resources s. The larger competitors, particularly IGT, have an advantage in being able to spend mounts than us to develop new technologies, games and products that are attractive to nd customers. In addition, some of our competitors have developed, sell or otherwise to customers security, centralized player tracking and accounting systems which allow perators to accumulate accounting and performance data about the operation of gaming s. We have not offered these systems in the past and, with the acquisition of SiP, we expect ffer these systems to smaller international customers.

Manufacturing

ently manufacture substantially all of our gaming machines at our facility in Waukegan, We are continuously reconfiguring our assembly lines in order to lower our manufacturing es, eliminate wasteful activities, improve productivity, and effectively increase our on capacity. We completed an expansion of our Waukegan facility in July 2007 to a total of square feet in order to consolidate under one roof warehousing and distribution activities maintained at outside-leased facilities, which improved production efficiencies. In fiscal ceased manufacturing activities of Orion Gaming products in the Netherlands, transferring vities to our Waukegan and Barcelona facilities. We also refurbish used gaming machines s Vegas facility.

turing commitments are generally based on sales orders from customers. However, due to rder flow from customers, component parts common to all gaming machines are purchased mbled into a partial product that are inventoried in order to be able to quickly fill final orders. Our manufacturing processes generally consist of assembling component parts and mblies into a complete gaming machine. Through the use of lean sigma processes in the f our new *Bluebird2* gaming machine, in addition to setting up the supply chain processes gaming machine, we achieved our operating and strategic sourcing initiatives, and we can ship a standard black *Bluebird2* gaming machine within two weeks of receiving the order, which is less than the lead time for our *Bluebird* product.

rally warrant our new gaming machines sold in the U.S. for a period of 90 days, while we y warrant our gaming machines sold internationally for a period of 180 days to one year. ide several after-sale services to our customers including customer education programs, 24 tomer service telephone hot-line, a website for technical support, field service support s and spare parts programs. Our warranty

15

f Contents

ve not been significant. From time to time we may also sell used gaming machines, g products made by us as well as those produced by our competitors which we have taken rade-ins from our customers. Generally, we acquire used gaming machines as trade-ins he purchase of new gaming machines. While a small secondary market exists in the United sed gaming machines are typically sold to United States-based distributors and then resold national markets where new machine purchases may prove to be too costly. Where ate, we incur costs to recondition used gaming machines for resale or we may elect to he used gaming machines. We also occasionally sell used gaming machines in lots on an as to licensed used equipment brokers and customers.

materials used in manufacturing our gaming machines include various metals, plastics, ass and numerous component parts, including electronic subassemblies and LCD screens. ve that our sources of supply of component parts and raw materials are generally adequate ave few sole-sourced parts.

inue to implement cost savings and efficiency initiatives and focus on best practices, g lean sigma, in order to improve the efficiency of our manufacturing processes and reduce ulfill orders. We continue to make improvements in sourcing and supply management, in y and warehouse management, and other manufacturing processes. We are implementing a s operations strategy in an effort to produce gaming machines more ratably throughout the with the goal of significantly reducing quarter-end compression in manufacturing. We also going manufacturing initiatives, such as enhanced strategic sourcing and supplier ment, value engineering the products and designing products for both ease of turability and installation, that we expect will help improve gross margins in future

Patent, Trademark, Licenses, Copyright and Product Protection

ne, gaming machine and associated equipment embodies a number of separately protected ual property rights, including trademarks, copyrights and patents. We believe these ual property rights are significant assets to our business in the aggregate. During fiscal 008 and 2007, we utilized technology licensed from two separate third parties in ally all of the products we sold or leased. In addition intellectual property from another was utilized in leased units which generated over 10% of our total revenues. We seek to ur investment in research and development and the unique and distinctive features of our and services by maintaining and enforcing our intellectual property rights.

obtained patent protection covering many of our products. We were granted approximately patents during fiscal 2009, and continue to apply for many patents in the United States and e to protect inventions in our products and resulting from our research and development We generally seek to obtain trademark protection in the U.S. for the names or symbols hich we market and license our products. We also rely on our copyrights, trade secrets and ary know-how. In addition, some of our most popular gaming machines are based on ks and other intellectual property licensed from third parties. We file for patent rights and k protection internationally in a number of key countries, based upon the nature of the trademark, the laws of the given country and our anticipated product placements in that

Brand Licenses and Technology

ve that our use of brand name intellectual property contributes to the appeal and success of ucts, and that our future ability to license, acquire or develop new brand names is important ntinued success. Therefore, we continue to invest in the market positioning of WMS and eness and recognition of our brand names and brand names that we license.

16

f Contents

of our games are based on popular brands licensed from third parties, such as Hasbro, e Media North America, CBS Studios Inc., Turner Entertainment Co. and Warner Bros. er Products Inc. Typically, we are obligated to make minimum guaranteed royalty s over the term of the license agreement and to make advanced payments against those nents. The licensor typically must inspect and approve any use of the licensed property. In each license typically provides that the licensor retains the right to exploit the licensed for all other purposes, including the right to license the property for use with any products d to gaming machines.

of our competitors have pooled their intellectual property patents that provide cashless apabilities, specifically ticket-in ticket-out technology. Using this technology, when casino ash out from a gaming machine they receive a printed ticket instead of coins. We have a usive, royalty-bearing license for certain patents related to this technology with IGT he expiration date of the relevant patents and pass through the license fee to our customers roduct sales business.

11, 2009, we entered into a new long-term license agreement with Hasbro whereby we license certain intellectual property and proprietary rights owned or controlled by Hasbro such as *MONOPOLY*, *BATTLESHIP* and *CLUE* for use in our chance-based electronic machines. The agreement is effective April 1, 2009 and has an initial term through er 31, 2016. We have the right to extend the license for an additional three-year term if conditions are satisfied. We currently have approvals for more than 60 *OLY*-branded games, including 16 *MONOPOLY* WAP games. Over the last three fiscal e added 19 *MONOPOLY* games to our participation game portfolio.

ensed brands we use in our products include: an exclusive agreement to develop, market ibute games using the brands *POWERBALL*; *MEN IN BLACK*; *JOHN WAYNE; HAPPY TAR TREK; THE WIZARD OF OZ*; *GREEN ACRES*; *TOP GUN*; and *THE DUKES OF D*. We also license *DIRTY HARRY,* featuring Clint Eastwood.

ent operating system for our gaming machines, *CPU-NXT*, was developed in 2003 by esign Group Inc., which is now a wholly owned subsidiary of our competitor, Bally ogies. We have a perpetual license to use this technology and have no continuing payment n for this license. Our *CPU-NXT2* operating system was developed internally and is based *NXT*.

ary 2008, we entered into a ten-year non-exclusive, royalty-bearing patent cross-license nt with IGT. This agreement provides for a cross license of intellectual property evidenced n patents owned by each of us relating to computing and NG gaming infrastructures.

e a technology transfer agreement with Cyberscan Technology Inc. (d/b/a Cyberview gy), under which we purchased versions of Cyberview s server-enabled and downloadable system and related technologies. In addition, Cyberview granted us a non-exclusive, , irrevocable, worldwide license to its technology patent portfolio related to NG and rights in a portion of any value Cyberview receives for this patent portfolio. The assets of w Technology were acquired by IGT in July 2008.

Government Regulation

our games and gaming machines in legal gaming jurisdictions worldwide. The manufacture ibution of gaming equipment and related software is subject to regulation and approval by ity, county, state, provincial, federal, tribal and foreign agencies.

ve we hold all of the licenses and permits necessary to conduct our business. In all, we are d to sell or lease our gaming machines to casinos in 353 jurisdictions worldwide, including national gaming jurisdictions.

f Contents

d our key personnel have obtained or applied for all approvals necessary to maintain ace with these regulatory agency requirements. The regulatory requirements vary among ons, but the majority of jurisdictions require licenses, permits, or findings of suitability for pany, individual officers, directors, major stockholders and key employees, and tation of qualification. We must satisfy all conditions for each gaming license or permit. ing equipment also must be approved either by a gaming agency lab or a private lab d by the gaming authority.

urisdictions, regulators govern not only the activities within their own jurisdiction but also that occur in other jurisdictions to ensure that the entities it licenses are in compliance al standards on a worldwide basis. Nevada is such a jurisdiction. The Nevada gaming es require us and our gaming subsidiary, WMS Gaming, to maintain Nevada standards of for all of our gaming activities and operations worldwide. To make our compliance efforts icient, we have centralized all licensing, compliance and non-product approval gaming y matters, including the shipment of gaming equipment and related software worldwide.

ing industry is complex and constantly evolving, particularly in new jurisdictions. We to devote significant resources to ensure regulatory compliance throughout our company. ally, we have an active gaming compliance committee consisting of one outside consultant members of our board of directors that works in concert with our compliance department in avoid any appearances of impropriety as a result of a business relationship or new market ity. We have never been denied a gaming-related license, nor have our licenses ever been d or revoked.

e gaming law requirements of many jurisdictions are similar, we are not including ions of all jurisdictions due to the number of jurisdictions to which we are subject. g are the specifics of selected gaming law requirements as a representative example of the egulation to which we are subject.

Regulations

of Regulatory Framework:

ufacture, sale and distribution of gaming machines for use or play in Nevada or for use f Nevada are subject to extensive state and local laws, regulations and ordinances of the Gaming Commission, the Nevada State Gaming Control Board, and various county and al regulatory authorities (collectively, the Nevada gaming authorities). The laws, ns and ordinances primarily cover the responsibility, financial stability and character of equipment manufacturers, distributors and operators, as well as persons financially d in or involved in gaming operations. We currently hold all necessary gaming licenses to ure, distribute and operate a slot route or a wide-area progressive system.

, regulations and supervisory procedures of the Nevada gaming authorities are based on
licy and seek to:

revent unsavory or unsuitable persons from having a direct or indirect involvement with aming at any time or in any capacity;

tablish and maintain responsible accounting practices and procedures;

aintain effective control over the financial practices of licensees, including establishing inimum procedures for internal fiscal affairs and safeguarding the assets and revenues, oviding reliable record keeping and requiring the filing of periodic reports to the Nevada aming authorities;

revent cheating and fraudulent practices;

rovide a source of state and local revenues through taxation and licensing fees; and

rovide strict regulation of all persons, locations, practices, associations and activities lating to casino operations and the manufacture and distribution of gaming machines and lated software and equipment.

f Contents

g Requirements:

ecurity Holders

of our stock or of our issued debt may be required to file an application, be investigated ubject to a suitability hearing as a beneficial holder if the Nevada Gaming Commission has believe that the holder s ownership in our securities would be inconsistent with its public and those of the State of Nevada. As with any other gaming applicant, the holder will be to pay all costs associated with any investigation conducted by the Nevada gaming es.

y holder will have to abide by the following requirements:

the holder acquires 5% or more of our securities, report acquisition of beneficial interest in ur securities to the Nevada gaming authorities.

the holder acquires 10% or more of our securities, file a gaming application within 30 days ter receiving written notice from the Chairman of the Nevada Gaming Control Board.

son holding our voting securities is a corporation, partnership or a trust, and is required to suitable, the entity will be required to submit to the Nevada gaming authorities detailed and financial information, including a list of its beneficial owners.

on who fails or refuses to apply for a finding of suitability or a license within 30 days after dered to do so by the Nevada gaming authorities may be found unsuitable and may be o criminal penalties. The same restrictions apply to a record owner if the record owner, uest, fails to identify the beneficial owner. We are required to render maximum assistance vada gaming authorities in determining the identity of our beneficial owners.

itutional investor holds more than 10%, but not more than 15%, of our voting securities, stor may apply to the Nevada gaming authorities for a waiver of the finding of suitability if the voting securities for investment purposes only. Under certain circumstances, an nal investor may be able to hold up to 19% for a limited period of time. To qualify for this he institutional investor must have acquired the voting securities in the ordinary course of . In addition, the institutional investor may not hold the securities for the purpose of 1) the election of a majority of the members of our board of directors, (2) a change in our e charter, bylaws, management, policies or operations, or those of any of our gaming , or (3) any other action which the Nevada gaming authorities would find inconsistent with our voting securities for investment purposes only.

Company:

egistered with the Nevada Gaming Commission as a publicly traded corporation. We are to periodically file detailed financial and operating reports to the agency and furnish any ormation which the Nevada gaming authorities may require.

istered company, we also adhere to the following restrictions imposed by the Nevada uthorities:

ny individual having a material relationship or material involvement with us may be quired to be found suitable and individually licensed.

ur officers, directors and key employees must file license applications with the Nevada aming authorities and may be required to be licensed or found suitable by them. The ompany pays all costs of any such investigation.

ach stockholder applicant is required to pay all costs of any investigation.

f Contents

hanges of an applicant s position with us must be reported to the Nevada gaming thorities.

/e must sever all relationships with an officer, director or key employee that the Nevada aming authorities have found unsuitable and may be required to terminate the employment f any person that refuses to file a gaming application when requested.

/e are required to maintain a current stock ledger in the State of Nevada, which may be xamined by the Nevada gaming authorities at any time.

he Nevada gaming authorities have the power to require that our stock certificates bear a gend indicating that the securities are subject to the Nevada Gaming Control Act (although ompliance with this requirement has not been requested to date).

/e may not make a public offering of our securities without the prior approval of the evada Gaming Commission if the securities or the proceeds are intended to be used to onstruct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations curred for these purposes or for similar transactions. We currently hold an approval to ake certain public offerings through March 2010, subject to certain conditions. This shelf pproval can be rescinded for good cause and does not mean that for any offering we may ake, the Nevada gaming authorities have found, recommended or approved the issued curities or passed on the accuracy or adequacy of the prospectus or the investment merits f the securities offered. Any representation to the contrary is unlawful.

/e are subject to disciplinary action if, after we receive notice that a person is unsuitable to e a security holder or to have any other relationship with us, we:

pay that unsuitable person any dividend, interest or other distribution on any of our securities;

allow that person to exercise, directly or indirectly, any voting rights conferred through securities held by that person;

pay remuneration in any form to that person;

fail to pursue all lawful efforts to require the unsuitable person to relinquish voting securities including, if necessary, the immediate repurchase of the voting securities for cash at fair market value;

fail to pursue all lawful efforts to terminate our relationship with that person; or

make any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

we violate the Nevada gaming authorities rules and regulations, our gaming licenses could e limited, conditioned, suspended or revoked and we, and those involved with us, could be ned for each separate violation.

hanges in control whether through merger, consolidation, stock or asset acquisitions, anagement or consulting agreements, or any act or conduct by a person where control of MS is obtained, may not occur without the prior approval of the Nevada gaming thorities. Persons seeking to acquire control of us must satisfy the Nevada gaming thorities standards prior to assuming control.

sion made by the Nevada gaming authorities regarding a person s suitability or licensing is ct to judicial review. We believe we have obtained all required licenses and/or approvals y to carry on our business in Nevada, including receiving the necessary findings of y of our officers, directors and key personnel.

20

f Contents

/MS Gaming Subsidiary

aming manufactures, sells and distributes gaming machines in Nevada and for use outside and in 2004, began to operate a wide-area progressive system in Nevada casinos. WMS holds the necessary license to conduct this activity in addition to sharing in gaming revenue r slot route operator s license which covers our participation games.

aming s gaming licenses are subject to the following restrictions:

he Nevada gaming authorities have broad discretion in reviewing the conduct of a licensee n a continuing basis.

he officers, directors and key employees of our gaming subsidiary must file license pplications with the Nevada Gaming Authorities and may be required to be licensed or und suitable by them.

person may not become a stockholder of or receive any percentage of profits from our censed gaming subsidiary without first obtaining licenses and approvals from the Nevada aming authorities.

/e are required to report substantially all loans, leases, sales of securities and similar nancing transactions of a material nature to the Nevada Gaming Control Board and/or have em approved by the Nevada Gaming Commission.

ur gaming activity licenses are not transferable.

in Control:

ada legislature has declared that some corporate acquisitions opposed by management, ses of voting securities and corporate defense tactics affecting Nevada gaming licensees, icly traded corporations that are affiliated with those operations, may be injurious to stable uctive corporate gaming. The Nevada Gaming Commission has established a regulatory rk to guard against the potentially adverse effects of these business practices upon Nevada s ndustry.

ls are, in certain circumstances, required from the Nevada Gaming Commission before we e exceptional repurchases of voting securities above their current market price and before a e acquisition opposed by management can be consummated. Nevada s gaming laws and ns also require prior approval by the Nevada Gaming Commission if we were to adopt a ecapitalization proposed by our board of directors in opposition to a tender offer made o our stockholders for the purpose of acquiring control of us.

Equipment Approvals:

has its own laboratory within its agency. Before we can sell a new gaming machine in it must first be approved by the Nevada agency. The agency conducts rigorous testing of ng machine and related equipment, and may require a field trial of the gaming machine and before determining that the gaming machines and platform meet the agency s strict standards. Throughout the course of offering our gaming machines and related software in the Nevada gaming authorities may require subsequent modifications and subsequent s.

ot have any control over the length of time that the agency takes to review our products. r, we work closely with the agency s staff to timely respond to their inquiries and assist here we can, in their evaluation, inspection and review of our products. We also do this for state labs (Michigan, Mississippi, New Jersey, Ontario, Pennsylvania) and Gaming ries International, Inc., an independent lab used by many jurisdictions worldwide.

f Contents

d License Fees:

fees and taxes are imposed by the Nevada gaming authorities and are either payable , semiannually or annually. The fees and taxes are computed in various ways depending on of gaming or activity conducted by our subsidiary and on the cities and counties in which diary conducts operations. Annual fees are payable to the Nevada State Gaming Control r renewal of licenses as a manufacturer, distributor, operator of a slot machine route and of an inter-casino linked system. Nevada law also requires that we pay our proportionate the gaming taxes from the revenue generated from our participation games placed in asinos.

on who is licensed, required to be licensed, registered, required to be registered, or is under control with any such person, and who proposes to participate in the conduct of gaming as outside of Nevada, is required to deposit with the Nevada State Gaming Control Board, eafter maintain, a revolving fund to pay the expenses of investigation of the licensee s ation in foreign gaming. The revolving fund is subject to increase or decrease at the n of the Nevada Gaming Commission. As a licensee, we are required to comply with requirements imposed by Nevada law. We are also subject to disciplinary action by the gaming authorities if we:

nowingly violate any laws of the foreign jurisdiction pertaining to our foreign gaming perations;

il to conduct the foreign gaming operation in accordance with the standards of honesty and tegrity required of Nevada gaming operations;

ngage in activities that are harmful to the State of Nevada or its ability to collect gaming xes and fees; or

mploy, contract with or associate with a person in the foreign operation who has been enied a license or finding of suitability in Nevada on the grounds of personal unsuitability.

Registration

aming is required to register annually with the Criminal Division of the United States ent of Justice in connection with the sale, distribution or operation of gaming equipment. eral Gambling Devices Act of 1962 (commonly known as the Johnson Act) makes it l, in general, for a person to manufacture, transport or receive gaming machines or ents across interstate lines unless that person has first registered with the U.S. Attorney l of the Department of Justice. We also have various record-keeping and nt-identification requirements imposed by this act. Violation of the Johnson Act may result e and forfeiture of the equipment, as well as other penalties. Our WMS Gaming subsidiary d to register and renew our registration annually.

merican Regulation

us Native American tribes have become engaged in or have licensed gaming activities on merican tribal lands as a means of generating revenue for tribal governments. Gaming on merican lands, including the terms and conditions under which gaming equipment can be eased to Native American tribes, is or may be subject to regulation under the laws of the e laws of the host state, and the Indian Gaming Regulatory Act of 1988, which includes on and oversight by the National Indian Gaming Commission and the Secretary of the tates Department of the Interior. Furthermore, gaming on Native American lands may also ct to the provisions of statutes relating to contracts with Native American tribes, which are inistered by the Secretary of the United States Department of the Interior.

an Gaming Regulatory Act of 1988 requires that the tribe and the host state enter into a greement called a tribal-state compact, that specifically authorizes Class III gaming. The must be approved by the Secretary of the United States Department of the Interior, with e of approval published

22

f Contents

deral Register. Tribal-state compacts vary from state to state. Many require that equipment s meet ongoing registration and licensing requirements of the state and/or the tribe and pose background check requirements on the officers, directors, principals and shareholders ng equipment suppliers. Under the Indian Gaming Regulatory Act of 1988, tribes are to regulate gaming on their tribal lands under ordinances approved by the National Indian Commission. These ordinances may impose standards and technical requirements on e and software and may impose registration, licensing and background check requirements ng equipment suppliers and their officers, directors, principals and shareholders.

the required licenses to manufacture and distribute our products in the Native American ons in which we do business and to operate our wide-area progressive systems.

onal Regulation

reign jurisdictions permit the importation, sale and/or operation of gaming equipment in nd non-casino environments. Where importation is permitted, some countries prohibit or he payout feature of the traditional gaming machine or limit the operation of gaming s to a controlled number of casinos or casino-like locations. Each gaming machine must with the individual jurisdiction s regulations. Some jurisdictions require the licensing of machine operators and manufacturers. We manufacture and supply gaming equipment, as cense our games and intellectual property to customers in various international markets de. We have the required licenses to manufacture and distribute our products in the foreign ons in which we do business.

Seasonality

our gaming machines to casinos are generally strongest in the spring and slowest in the months, while gaming operations revenues are generally strongest in the spring and Typically our total revenues are lowest in the September quarter and build in each ent quarter with the June quarter generating our highest total quarterly revenues. In , quarterly revenues and net income may increase when we receive a larger number of s for new games from regulators than in other quarters, when a game or platform that significant player appeal is introduced, if a significant number of new casinos open or casinos expand, or if gaming is permitted in a significant new jurisdiction.

Employees

ne 30, 2009, we employed 1,712 persons, including 177 that are internationally based. mately 274 of our domestic employees are represented by the International Brotherhood of l Workers (the IBEW). Our collective bargaining agreement with the IBEW relates to our an, Illinois manufacturing facility and expires on June 30, 2011. We believe that our with our employees are satisfactory.

23

f Contents

A. RISK FACTORS

you to carefully review the following discussion of the specific risks and uncertainties that r business. These include, but are not limited to, the following:

licenses, regulatory approvals and gaming legislation impact the ability to operate our and sell and lease our products:

he manufacture and distribution of gaming machines is subject to extensive federal, state, cal and foreign regulations and taxes. Most of the jurisdictions in which we operate require censes, permits, documentation of qualification, including evidence of financial stability, nd other forms of approval of our company and our officers, directors, major security olders and key personnel, along with our products. Licenses, approvals or findings of uitability may be revoked, suspended or conditioned. We cannot assure you that we will be ble to obtain or maintain all necessary registrations, licenses, permits or approvals, that the censing process will not result in delays or adversely affect our operations and our ability to aintain key personnel, or that complying with these regulations will not increase our costs.

he gaming authorities in some jurisdictions may investigate companies or individuals who ave a material relationship with us or our security holders to determine whether the selected dividual or security holder is acceptable to those gaming authorities. While any such vestigated company, individual or security holder must pay the costs of the investigation, ch an investigation may be time consuming and distracting to our operations. Failure of ompanies, individuals or security holders to cooperate with any such investigation could egatively impact our ability to obtain or maintain our licenses.

ach of our games and gaming machine hardware and software must be approved in each risdiction in which it is placed, and we cannot assure you that a particular game and aming machines, hardware or software will be approved in any jurisdiction. Our NG chnology will require regulatory approval in gaming jurisdictions prior to any shipment or nplementation and we cannot assure you that we will receive the approvals.

o expand into new jurisdictions, we may need to be licensed, obtain approvals of our roducts and/or seek licensure of our officers, directors, major security holders, key ersonnel or business partners. If we fail to seek, do not receive or receive a revocation of a cense in a particular jurisdiction for our games and gaming machines, hardware or oftware, we cannot sell or place on a participation or leased basis our products in that risdiction.

elays in, amendments to or repeals of legislation approving gaming or the expansion of aming in jurisdictions in which we operate or plan to commence operations, may adversely ffect our operations. Delays in approvals of our customers operations or expansions of their perations may adversely affect our operations.

ome jurisdictions require gaming manufacturers to obtain government approval before ngaging in certain transactions, such as business combinations, reorganizations, orrowings, stock offerings and share repurchases. Obtaining such pre-approvals can be time onsuming and costly. We cannot assure you that we will be able to obtain or maintain all ecessary approvals or that the approval process will not result in delays or changes to our usiness plans.

ness is vulnerable to changing economic conditions and current unfavorable economic ns have impacted and could continue to negatively impact the play levels of our tion games, new unit sales demand, and our ability to collect outstanding receivables customers:

xisting unfavorable general economic conditions reduce disposable income of casino atrons and result in fewer patrons visiting casinos. This decline in disposable income could sult in reduced play

24

f Contents

vels on our participation games, causing our cash flows and revenues from a large share of ur recurring revenue products to decline. Additionally, higher airfares, gasoline prices and her costs may adversely affect the number of players visiting our customer s casinos. urrent unfavorable economic conditions have also resulted in a tightening in the credit arkets, decreased liquidity in many financial markets, and resulted in significant volatility the credit and equity markets. Any significant or prolonged decrease in consumer ending on leisure activities could greatly affect the casino industry, causing some or all of ur customers to decrease spending or ultimately declare bankruptcy, each of which would lversely affect our business.

decline in the relative health of the gaming industry and the difficulty or inability of our ustomers to obtain adequate levels of capital to finance their ongoing operations reduces eir resources available to purchase our products and services, which adversely affects our venues. If we experience a significant unexpected decrease in demand for our products, we uld incur losses and also be required to increase our inventory obsolescence charges.

urthermore, current unfavorable economic conditions have and could continue to impact e ability of our customers to make timely payments to us. We implemented a program to ovide more than historical financing terms to certain of our customers in 2009 which could crease our collection risk. We experienced a greater number of customers filing for otection under the bankruptcy laws in fiscal 2009 than in previous years and our bad debt xpense increased to $7.1 million. If customers are not able to pay us, we may incur lditional provisions for bad debt related to lack of collectibility of certain receivables.

ducts, such as NG, may be subject to complex revenue recognition standards, which terially affect our financial results:

s we introduce new products and our commercial transactions become increasingly omplex, additional analysis and judgment is required to account for them and to recognize venues in accordance with generally accepted accounting principles. Transactions may clude multiple element arrangements and/or software components and applicable ccounting principles or regulatory product approval delays could change the timing of venue recognition and could adversely affect our financial results for any given period. uctuations may occur in our revenue and related deferred revenues and reflect our ontinued shift toward more multiple element contracts that include systems and software.

itability depends on our ability to continue to develop, in a timely basis, new technologies earning products that appeal to the player:

he gaming machine business is characterized by the rapid development of new technologies nd the introduction of new products using such technologies. We must continually adapt ur products to incorporate new technologies and if we cannot adapt, or do not timely adapt ew technologies, our operations may be adversely impacted.

he success of a newly introduced technology, such as NG, is dependent on our casino ustomers acceptance of a dynamic change in the way they manage their casino floors. hile we have designed *WAGE-NET* to support our customers existing investment in our *luebird* and *Bluebird2* products, such acceptance may nevertheless only build gradually ver time. Delays in acceptance by our customers of new technologies may adversely affect ur operations.

ur success depends upon our ability to adapt our manufacturing capabilities and processes meet the demands of producing new and innovative products. Because our newer products e generally more technologically sophisticated than those we have produced in the past, we ust continually refine our production capabilities to meet the needs of our product novation. If we cannot efficiently adapt our manufacturing infrastructure to meet the needs f our product innovations, or if we are unable to make upgrades to our production capacity a timely manner, our business could be negatively impacted.

ur success also depends on continually developing and successfully marketing new games nd gaming machines with strong and sustained player appeal. A new game or gaming achine will be accepted by

25

f Contents

asino operators only if we can show that it is likely to produce more revenue and net win to e casino operator than our existing products or our competitors products. Gaming machines an be installed in casinos on a trial basis, and only after a successful trial period are the aming machines purchased by the casinos. Additionally, we are at risk that customers may ancel orders for products that are not performing to expectations at other casinos. If a new roduct does not achieve significant market acceptance, we may not recover our evelopment, regulatory approval and promotion costs.

articipation gaming machines are replaced on short notice by casino operators if the gaming achines do not meet and sustain revenue and profitability expectations. Therefore, these aming machines are particularly susceptible to pressure from competitors, declining opularity, changes in economic conditions and increased taxation and are at risk of placement by the casinos, which would end our recurring revenues from these gaming achines unless they can be placed with another customer or repurposed.

ur success depends on our ability to avoid, detect, replicate and correct software and ardware anomalies and fraudulent manipulation of our gaming machines. All of our games e designed with security features to prevent fraudulent activity. However we can not uarantee that these features will effectively stop all fraudulent activities. If our security atures do not prevent fraud we could adversely be affected.

ur gaming machines have experienced anomalies and fraudulent manipulation in the past. ames and gaming machines may be replaced by casinos and other gaming machine perators if they do not perform according to expectations, or may be shut down by gulators. The occurrence of anomalies in, or fraudulent manipulation of, our gaming achines may give rise to claims for lost revenues and related litigation by our customers nd may subject us to investigation or other action by gaming regulatory authorities cluding suspension or revocation of our gaming licenses, or disciplinary action. dditionally, in the event of such issues with our gaming machines, substantial engineering nd marketing resources may be diverted from other projects to correct these issues, which ay delay our other projects.

ependent on our intellectual property and trade secrets and must ensure we are licensed tellectual property and trade secrets owned by others:

ur competitors have been granted patents covering, among other items, numerous gaming achine features, bonusing techniques and related technologies. If our products use rocesses or other subject matter that is claimed under our competitors patents, or if other ompanies obtain patents claiming subject matter that we use, those companies may bring fringement actions against us. We might then be forced to discontinue the affected roducts or be required to obtain licenses from the company holding the patent, if it is illing to give us a license, in order to continue to develop, manufacture or market our roducts. We might also be found liable for treble damage claims relating to past use of the atented subject matter if the infringement is found to be willful.

ubstantially all of our gaming machines utilize trademarks and other intellectual properties censed from third parties. Our future success may depend upon our ability to obtain, retain nd/or expand licenses for popular intellectual properties in a competitive market. In the vent that we cannot renew and/or expand existing licenses, we may be required to scontinue or limit our use of the games or gaming machines that use the licensed chnology or bear the licensed marks.

ur success may depend in part on our ability to obtain trademark protection for the names r symbols under which we market our products and to obtain copyright protection and atent protection of our proprietary technologies, intellectual property and other game novations. We cannot assure you that we will be able to build and maintain goodwill in our ademarks or obtain trademark or patent protection, that any trademark, copyright or issued atent will provide competitive advantages for us or that our intellectual properties will not e successfully challenged or circumvented by competitors.

f Contents

e also rely on trade secrets and proprietary know-how. We enter into confidentiality greements with our employees and independent contractors regarding our trade secrets and roprietary information, but we cannot assure you that the obligation to maintain the onfidentiality of our trade secrets or proprietary information will be honored. Despite arious confidentiality agreements and other trade secret protections, our trade secrets and oprietary know-how could become known to, or independently developed by, competitors.

e have entered into multiple agreements to license intellectual property and technologies at, as of June 30, 2009, had a net book value of $68.6 million and total potential future ommitment of $112.7 million, including contingent payments. We also have other finite ved intangible assets, including patents, customer relationships and trademarks with ggregate net book value of $19.7 million as of June 30, 2009. If we determine that we may ot realize the value of any of the finite lived intangible net assets or commitments, we ould record an immediate charge against earnings up to the full amount of these net assets commitments in the period in which such determination is made. See Note 7, Intangible ssets to our Consolidated Financial Statements for further information on the amount of tellectual property and technologies recorded on our Consolidated Balance Sheets and ote 13, Commitments, Contingencies and Indemnifications to our Consolidated Financial atements for further information on total potential future commitments.

stry is competitive:

he gaming machine business is intensely competitive. Some of our competitors are large ompanies with greater financial, marketing and product development resources than ours. addition, new competitors may enter our key markets. Obtaining space and favorable acement on casino gaming floors is a competitive factor in our industry. Competitors with larger installed base of gaming machines than ours have an advantage in obtaining and taining the most space and best positions in casinos.

addition, some of our competitors have developed and sell or otherwise provide to stomers centralized player tracking and accounting systems which allow casino operators accumulate accounting and performance data about the operation of gaming machines. hile, with the acquisition of SiP, we can now offer a centralized player tracking and ccounting system, we anticipate SiP s systems will only be used in small international sinos. By not having such a system for large casinos, we are at a competitive disadvantage.

ur profitability is somewhat dependent on our ability to successfully enter into new arkets (e.g. Class II) and new channels of distribution. We can not assure you that our oducts will receive the proper regulatory approvals, be accepted by customers or casino ayers or will perform as well in these markets as they have in our traditional markets.

ness is subject to political, market, and financial risks:

he gaming industry can be affected by public opinion of gaming. In the event that there is a ecline in public acceptance of gaming, either through unfavorable legislation affecting the troduction of gaming into emerging markets, or through legislative and regulatory changes, cluding tax increases, in existing gaming markets, our ability to continue to sell and lease ur gaming machines in those markets and jurisdictions would be adversely affected. We annot assure you that public opinion will continue to support legalized gaming.

ur gross margins are impacted by decreases to our selling prices or our average daily venue in our gaming operations business and increases to our costs of products sold cluding higher material costs due to the fluctuating commodities markets, higher labor osts and increased freight charges reflecting escalating gas prices. We may experience wer gross margins in the future if any of these events occurs.

/e face risks associated with doing business in international markets related to political and conomic instability and related foreign currency fluctuations. Unstable governments and hanges in treaties and

27

f Contents

gislation may affect the international gaming market with respect to gaming regulation, xation, tariffs and import duties, and the legality of gaming in some markets, as we perienced with the decline in the Russian market in fiscal 2006. Additionally, we may ave increased costs in connection with complying with international laws.

ompliance with applicable environmental, health and safety laws and regulations, including ew regulations requiring higher standards, may increase our costs, limit our ability to utilize ur current supply chain and force design changes to our products. These changes could duce the net realizable value of our inventory, which would result in an immediate charge our Consolidated Income Statements. Non-compliance could negatively impact our perations and financial position as a result of fines, penalties, and the cost of mandated mediation or delays to our manufacturing.

certain sales of new gaming machines and placement of participation gaming machines e have offered free gaming machines and/or free conversions, while at the same time we ontinue to charge our customers for gaming machines and conversions, including *PU-NXT and CPU-NXT2* upgrade kits. We cannot be sure that competitive pressure will ot cause us to increase the number of free gaming machines and conversions we are xpected to offer to our customers, which would decrease the revenue we expect to receive nd reduce our gross profit.

we cannot maintain and execute adequate internal control over financial reporting or nplement required new or improved controls that provide reasonable assurance of the liability of the financial reporting and preparation of our financial statements for external se, we may suffer harm to our reputation, fail to meet our public reporting requirements on timely basis, or be unable to properly report on our business and the results of our perations. Additionally, the inherent limitations of internal control over financial reporting ay not prevent or detect all misstatements or fraud, regardless of the adequacy of those ontrols.

ur credit facility contains financial covenants which may restrict our ability to, among her things, make certain levels of capital expenditures; incur additional debt; incur liens; hange the nature of our business; merge with or acquire other companies, liquidate or ssolve; limit share repurchases; and sell, transfer, lease or dispose of all or substantially all f our assets. In addition our credit facility expires on December 31, 2009 and while we xpect to be able to extend or replace such facility, under the current economic conditions nd capital markets, no assurance can be made that we will be able to negotiate such greements or that such agreements would not place further limitations on our operations. In ddition, if we experience another financial crisis and collapse of the capital markets, ausing our stock price to fall and stay below $13.19 per share, holders of our $115 million f convertible debt due July 2010, may not convert into common stock. Therefore we might ave to extinguish the debt with available cash or borrow on our credit facility or a ombination of both, and we cannot provide assurance that we will be able to fund that mount of payment.

ependent on our employees.

he loss or unavailability of one or more of our executive officers or the inability to attract r retain key employees in the future could have an adverse effect on our operations.

ur ability to continue to develop new technologies and create innovative products depends
n our ability to recruit and retain talented employees. A lack of skilled, technical workers
ould delay or negatively impact our business plans.

ence of our preferred stock could adversely affect the market price of our common

ur certificate of incorporation authorizes the issuance of five million shares of preferred
ock with designations, rights and preferences that may be determined from time to time by
e board of directors. Accordingly, our board has broad power, without stockholder
pproval, to issue preferred stock with dividend, liquidation, conversion, voting or other
ghts that could adversely affect the voting power or other rights of the holders of our
ommon stock. Our board of directors could use preferred stock to

f Contents

scourage, delay or prevent a change in control. Our board has no current plans, agreements commitments to issue any shares of preferred stock. The existence of the preferred stock, owever, could adversely affect the market price of our common stock.

B. UNRESOLVED STAFF COMMENTS

PROPERTIES

turing Facility & Corporate Headquarters

n manufacturing facility and corporate headquarters is located in Waukegan, Illinois, a f Chicago, where we own a facility of more than 350,000 square feet that houses our turing and corporate administrative personnel and it also includes warehouse space. This vas built in 1995 and expanded and improved in both 1998 and 2007. The 2007 expansion us to bring under one roof raw materials and finished goods that had previously been stored te third-party warehouses. The fiscal 2007 expansion of our Waukegan facility ensures that adequate in capacity and condition to satisfy our expected future growth requirements.

Technology Campus

neering and game development headquarters is located in Chicago, Illinois, where we own y of more than 129,000 square feet that houses our Chicago engineering and game ment personnel. Our Chicago facility has been renovated into a research and development accommodate the growth of our engineering and game development staff. This facility s engineering and game development for all North American markets and certain onal markets. We own a parcel of land and a building in Chicago down the street from our gy campus which we renovated for use in fiscal 2009 by our commercial operations team. 2008 we purchased an additional parcel of land and building down the street from our technology campus for further expansion and in fiscal 2009 we purchased two other n the same area for future expansion. We have one tenant that occupies the buildings on ee parcels. We are working with an architect to develop a master plan for this entire

p Zoom, the Netherlands

a facility in Bergen op Zoom, the Netherlands that we use for game development and sales bution.

f Contents

acilities

on to the principal and material physical properties described above, we maintain leased rldwide including:

North America	Europe and South Africa	Asia Pacific / Latin America
Georgia	Aosta, Italy	Buenos Aires, Argentina
City, New Jersey	Barcelona, Spain	Macau, China
inois	Graz, Austria	Sydney, Australia
Illinois	Guateng, South Africa	
elaware	Uxbridge, England	
Colorado	Amsterdam, Netherlands	
Mississippi		
City, Missouri		
s, Nevada		
n, Florida		
evada		
Ontario, Canada		
ville, Mississippi		

LEGAL PROCEEDINGS

ber 2, 2003, La Societe de Loteries du Quebec (Loto-Quebec) filed claims against us and ottery Consultants Inc., a subsidiary of IGT (VLC) in the Superior Court of the Province of Quebec City District (200-06-000017-015). The pleadings allege that Loto-Quebec would ed to be indemnified by the manufacturers of Loto-Quebec s VLTs, specifically WMS and the class action plaintiffs, described below, are successful in the pending class action against Loto-Quebec. In July 2008, we entered into a settlement agreement with ebec under which Loto-Quebec agreed to suspend the action in warranty against us in e for our agreement to continue cooperating with the defense of the class action lawsuit oto-Quebec and, in the event of an adverse outcome in such lawsuit against Loto-Quebec, tion of any warranty claim by Loto-Quebec. The settlement agreement reserves all of our against Loto-Quebec.

s action lawsuit discussed in Loto-Quebec s claim was brought on May 18, 2001 against
ebec in the Superior Court of the Province of Quebec. It alleges that the members of the
veloped a pathological gambling addiction by using Loto-Quebec s VLTs and that
ebec, as owner, operator and distributor of VLTs, failed to warn players of the alleged
associated with VLTs. Spielo Manufacturing Inc., another manufacturer of VLTs,
ly intervened to support Loto-Quebec s position. Class status was granted by the Court on
002, authorizing Jean Brochu to act as the representative plaintiff. The class, which is
undetermined, but potentially comprising more than 119,000 members, is requesting
totaling almost $700 million Canadian dollars, plus interest. The trial began in September
d is continuing. It is too early to assess the outcome of these actions and to determine
any further claim will be pursued by Loto-Quebec under the terms of our settlement
nt.

nber 2008, we settled a trademark lawsuit against a third party for a cash receipt in the
of $5.0 million, which is included in the Interest income and other, net line in our
ated Statements of Income for the year ended June 30, 2009.

30

f Contents

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

names mentioned in this Report are trademarks of WMS Gaming Inc., except for the g marks: 3 WAY ACTION is a trademark of Yehia Awada; 3SPACE, BOSE and FREE are trademarks of Bose Corporation; BATTLESHIP, CLUE and MONOPOLY are rks of Hasbro, Inc; CLINT EASTWOOD is a registered trademark of Clint Eastwood; HARRY is a trademark of Warner Bros. Consumer Products Inc.; G2E is a trademark of revier Inc. and the American Gaming Association; G2S and S2S are trademarks of the Standards Association; GREEN ACRES is a trademark of Orion Pictures Corporation; DAYS and STAR TREK are trademarks of CBS Studios Inc.; JOHN WAYNE is a trademark e Enterprises, L.P.; PRESS YOUR LUCK is a trademark of FremantleMedia Operations N IN BLACK is a trademark of Columbia Pictures Industries, Inc; POWERBALL is a rk of the Multi-State Lottery Association; THE DUKES OF HAZZARD is a trademark of Bros. Entertainment Inc.; THE WIZARD OF OZ is a trademark of Turner Entertainment IE MACHINE is a trademark of Next Generation Entertainment (Aust) Pty Limited; TOP a trademark of Paramount Pictures Corporation.

PART II

MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

mon stock, par value $0.50, trades publicly on the New York Stock Exchange (NYSE) e symbol WMS. On August 24, 2009, there were approximately 724 holders of record of mon stock.

owing table shows the high and low sale prices of our common stock for the two most cal years, as reported on the NYSE:

	High	Low
Fiscal Year Ended June 30, 2009		
First Quarter	$ 34.20	$ 26.42
Second Quarter	29.94	17.99
Third Quarter	28.30	15.67
Fourth Quarter	35.84	21.44
Fiscal Year Ended June 30, 2008		

First Quarter	$ 33.10	$ 24.61
Second Quarter	37.14	30.89
Third Quarter	40.78	31.66
Fourth Quarter	38.74	29.45

d Policy

dividends were declared or paid on our common stock during fiscal 2009 or 2008. Our pay future cash dividends will depend upon, among other things, our earnings, anticipated n, capital requirements and financial condition. We do not expect to pay cash dividends in eeable future.

a revolving credit agreement, as amended, that provides for $100 million of unsecured ng through December 31, 2009, including the potential to expand the line up to $125 Up to $10 million of the credit facility is available for the issuance of letters of credit. The reement requires that we maintain certain financial ratios, which could limit our ability to companies, declare dividends or make any distribution to holders of any shares of capital r repurchase or otherwise acquire shares of our common stock. At June 30, 2009, nately $114.2 million was available for such purposes under the most restrictive of these s.

31

f Contents

agreed to make additional payments of interest on our convertible subordinated notes if we cash dividend on our common stock. The amount of the additional payments will be equal sh dividends that would be payable to the holders of the notes if the holders had converted es into shares of our common stock on the record date for the dividend. However, no such needs be made if the dividend that would otherwise trigger the payment causes an nt to the note conversion rate.

of Unregistered Securities

11, 2009, WMS Gaming Inc. entered into a new Gaming Device License Agreement (the icense) with Hasbro whereby WMS Gaming agreed to license certain intellectual property rietary rights owned or controlled by Hasbro in titles such as *MONOPOLY*, *BATTLESHIP* *E* for use in WMS Gaming s chance-based electronic gaming machines. As part of the ment to Hasbro to enter into the 2009 License, our Board of Directors approved an ent (the Warrant Modification Agreement) to that certain warrant to purchase our common ich remains outstanding and was issued to Hasbro in 2003 in connection with a licensing ment (the 2003 Warrant) for the *MONOPOLY* brand. The Warrant Modification Agreement that the term of the 2003 Warrant will be extended until December 31, 2018. In addition, ation date of the 2003 Warrant will be extended for three years if we elect to extend the ense. The 2003 Warrant is 60% vested and, under the Warrant Modification Agreement, vaived its right to accelerated vesting of the 2003 Warrant. On June 11, 2009, our Board of , also as part of the inducement to Hasbro to enter into the 2009 License, approved a grant ant to purchase up to 500,000 shares of our common stock (the 2009 Warrant). The 2009 s exercise price is $30.03 per share of our common stock (the closing price on June 11, date of grant), subject to adjustment. The 2009 Warrant will only vest if certain conditions (1) we request Hasbro s consent to an assignment of the 2009 License upon the undertaking n transactions by us and Hasbro gives its consent to such assignment and (2) such on is effected. Each year that the three conditions are not met, the number of shares subject 09 Warrant decrease; provided however, that the number of underlying shares will not be 375,000 shares. If not vested and exercised, the 2009 Warrant will expire on December 31, nich expiration date will extend for three years if we elect to extend the 2009 License. The rrants have been, and the shares of the our common stock issuable upon exercise will be ursuant to the exemption from the registration requirements of the Securities Act of 1933, ded (the Securities Act), afforded by Section 4(2) of the Securities Act and Rule 506 of on D promulgated thereunder, as a transaction with an accredited investor not involving a ffering. Hasbro has represented that it is an accredited investor and that it is acquiring the and our common stock issuable upon exercise thereof for its own account, for investment l not with a view to the resale or distribution of the securities. See Note 12, Equity sation Plan to our Consolidated Financial Statements.

ases of Common Shares

owing table provides information relating to repurchases of our common shares for the arter of fiscal 2009:

riod	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased	Maximum Number (Or Approximate Dollar Value)

		as Part of Publicly Announced Plans or Programs(1)	of Shares that May Yet Be Purchased under the Plans or Programs(1)
2009 2009	$		$ 74,522,853
009 2009	$		$ 74,522,853
009 2009	$		$ 74,522,853
	$		$ 74,522,853

ugust 3, 2009, our Board of Directors authorized the repurchase of an additional $75 on of our common stock over the following twenty-four months increasing our remaining rchase authorization to approximately $150 million. This authorization increases the ing program, previously authorized on

32

f Contents

ust 4, 2008, from $150 million to $225 million and extended the expiration date to ust 3, 2011. Pursuant to the authorization, purchases may be made from time to time in the market, through block purchases or in privately negotiated transactions. The timing and l number of shares repurchased will depend on market conditions. During fiscal 2009, we hased 1,602,470 shares for approximately $35.5 million at an average cost of oximately $22.15 per share.

SELECTED FINANCIAL DATA

as of June 30, 2009 and 2008 and for the years ended June 30, 2009, 2008 and 2007 are from our audited Consolidated Financial Statements and related Notes that are included e in this Report. The data as of June 30, 2007, 2006 and 2005 and for the years ended 2006 and 2005 are derived from our audited Consolidated Financial Statements and related t are included in other reports filed with the Securities and Exchange Commission.

cted financial data should be read in conjunction with Item 7, Management s Discussion and s of Financial Condition and Results of Operations and our Consolidated Financial ts.

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
	(in millions, except per share amounts)				
nt of Operations Data:					
s	$ 706.4	$ 650.1	$ 539.8	$ 451.2	$ 388.4
g income	136.6	104.4	74.2	49.0	30.7
efore income taxes	140.4	105.6	71.7	49.2	30.3
for income taxes	48.2	38.1	22.8	15.9	9.1
me(1)(2)(3)(4)(5)	$ 92.2	$ 67.5	$ 48.9	$ 33.3	$ 21.2
s per share:					
	$ 1.87	$ 1.34	$ 1.01	$ 0.71	$ 0.46
	$ 1.59	$ 1.15	$ 0.86	$ 0.63	$ 0.41
d-average common shares:					
mmon stock outstanding	49.2	50.2	48.4	47.1	46.1
ommon stock and common ivalents	59.1	60.6	59.6	56.9	56.6
ls per common share	$	$	$	$	$
w Data:					
provided by (used in):					
g activities	$ 179.2	$ 186.2	$ 118.9	$ 103.1	$ 6.1
activities	(113.8)	(117.8)	(158.8)	(94.1)	(45.8)
g activities	(29.8)	(5.2)	35.6	(4.6)	15.4
exchange rates on cash and cash nts	(0.7)	0.4	2.4	(0.5)	(0.4)
(decrease) in cash and cash nts	$ 34.9	$ 63.6	$ (1.9)	$ 3.9	$ (24.7)

	As of June 30,				
	2009	2008	2007	2006	2005
	(in millions)				

Sheet Data:					
cash equivalents	$ 135.7	$ 100.8	$ 37.2	$ 39.1	$ 35.2
capital	334.3	296.7	255.5	234.2	241.8
ets	856.0	772.7	655.7	526.4	478.4
m debt	115.0	115.0	115.0	115.0	115.0
ders equity	591.4	510.8	433.6	325.6	285.2

ncome in fiscal 2009 includes $11.2 million of after-tax share-based payment expenses pared to $9.4 million, $7.7 million, $7.6 million and $2.4 million in fiscal 2008, 2007, 2006 2005, respectively.

33

f Contents

ncrease in share-based payment expense in fiscal years subsequent to fiscal 2005 is due to Company s adoption of Statement of Financial Accounting Standards (SFAS) No. 123 sed 2004), *Share-Based Payment* , effective July 1, 2005. See Note 2, Principal Accounting ies to our Consolidated Financial Statements.

ncome in fiscal 2009 includes a $3.1 after-tax gain from a cash settlement of trademark tion and a $1.1 million income tax benefit related to the period January 1, 2008 through 30, 2008 due to the retroactive reinstatement of the research and development tax credit lation in December 2008.

ncome in fiscal 2008 includes a $2.3 million after-tax write down to net realizable value of nnology license.

ncome in fiscal 2007 includes a $1.0 million after-tax charge for expenses associated with agement separation costs during the period and a $0.7 million income tax benefit related to eriod January 1, 2006 through June 30, 2006, due to the retroactive reinstatement of the rch and development tax credit legislation in December 2006.

ncome in fiscal 2005 includes: an after-tax charge of $0.7 million for employee separation ; an after-tax gain of $0.4 million in other income from the license of certain intellectual erty of a discontinued business; pre- and after-tax income of $1.5 million related to final ement of tax advances with our former subsidiary, Midway Games Inc., which we iously fully reserved; and a non-cash after-tax charge of $2.9 million relating to net ntory charges to reduce legacy inventory to net realizable value.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

owing discussion and analysis should be read in conjunction with our Consolidated l Statements and Notes thereto included elsewhere in this Report. This discussion and also contains forward-looking statements and should also be read in conjunction with the res and information contained in Cautionary Note and Item 1A. Risk Factors in this The following discussion and analysis is intended to enhance the reader s understanding of ess environment.

In this Report, the terms we , us , our , and WMS mean WMS Industries Inc., a e corporation, and its subsidiaries. All references to years, unless otherwise noted, refer to l year, which ends on June 30. All references to quarters, unless otherwise noted, refer to ers of our fiscal year.

IEW

ion is: through imagination, talent and technology, we create and provide the world s most ng gaming experiences. We design, manufacture and distribute gaming machines and video rminals (VLTs) for customers in legalized gaming jurisdictions worldwide. Our products primarily of video gaming machines, mechanical reel gaming machines and VLTs. Our machines are installed in all of the major regulated gaming jurisdictions in the United s well as in over 100 international gaming jurisdictions. We generate revenue in two ways: product sales and gaming operations.

out our fiscal 2009, the financial market crisis disrupted credit and equity markets
de and led to a weakened global economic environment. The effect of the weakened global
and the fallout from the financial market crisis has been a challenge for our industry with
ming operators delaying or canceling construction projects, coupled with many customers
their annual capital budgets for calendar 2009. The economic crisis reduced disposable
for casino patrons and resulted in fewer patrons visiting casinos. In anticipation of the
ing replacement cycle and in response to the challenging economic environment, we
the number of new positions we hired in fiscal 2009, and took actions to contain
roll related spending. In fiscal 2010, we will remain focused on controlling spending and
ng capital expenditures and other discretionary items. The economic crisis lowered the
of new units we sold in fiscal 2009. We believe the industry will rebound once the economy
t markets improve in the future.

34

f Contents

expected that with our launch of the network gaming enabled *Bluebird2* gaming machines, nt with certain of our competitors launching their networked gaming enabled products, the would experience an improvement in the replacement cycle which has been at an lly low level for the past few years. However, as discussed above, the economy slowed just w gaming machines were being launched, so we did not see the expected improvement in cement cycle. Even with the adverse economic environment and its impact on our industry customers to constrain their capital budgets, we launched our *Bluebird2* gaming machines ecember 2008 quarter with premium features at a significantly higher price, and demand expectations. For fiscal 2009, *Bluebird2* units accounted for 35% of our total new units We continue to believe that once the economy improves and capital budgets of our s increase, the replacement demand will improve, and we ll also experience an increase in from casino expansions and new casino openings.

ve several recent developments fueled by the challenging economic situation will benefit long term. In the United States, legislators have passed or are considering enabling or n of gaming legislation in Ohio, Illinois, Kansas, Iowa, Maryland, and Massachusetts. The and timing of such opportunities remains uncertain due to the political process in these ions as well as the difficult credit environment facing our customers and the risk of d economic uncertainty. We are also focused on entering the Mexico market as it moves to gaming, and the New South Wales, Australia market, as well as opportunities for new or d gaming in Italy, Singapore and Taiwan.

Sales

sales revenue includes the sale of new and used gaming machines and VLTs, parts, sion kits (including game theme and/or operating system conversions), ent-with-prize (AWP) gaming machines, gaming-related systems for smaller international perators and equipment manufactured under original equipment manufacturing (OEM) nts to casinos and other licensed gaming machine operators. We derive product sales from the sale of the following:

ulti-line, multi-coin video gaming machines, in our *Bluebird, Bluebird2* and Orion nancement Company (Orion Gaming) *Twinstar* and *Twinstar2*-branded gaming machines;

echanical reel-spinning gaming machines in our *Bluebird* and *Bluebird2*-branded gaming achines;

ideo poker machines in our *Bluebird* and *Bluebird2*-branded gaming machines, which are imarily offered as a casino-owned daily fee game, where the casino purchases the base aming machine and then leases the top box and game for a lower lease price point;

eplacement parts and conversion kits for our legacy, *Bluebird*, *Bluebird2, Twinstar, winstar2* and AWP gaming machines, and *CPU-NXT*® and *CPU-NXT2* upgrade kits;

sed gaming machines that are acquired on a trade-in basis or that were previously placed
n a participation basis;

WP gaming machines in certain international markets;

aming-related systems, including linked progressive systems and slot accounting systems
pplicable to smaller international casinos; and

aming machines in legacy, *Bluebird* and *Twinstar* cabinets in limited cases under OEM
greements to certain third parties.

Operations

gaming operations revenues from leasing participation games, gaming machines, and
nd earn royalties that we receive from third parties under license agreements to use our
ntent and intellectual property. Our gaming operations include the following product lines:

articipation games, which are gaming machines owned by us that we lease based upon any
f the following payment methods: (1) a percentage of the net win, which is the casino s
arnings generated by

35

f Contents

asino patrons playing the gaming machine; (2) fixed daily fees; or (3) a percentage of the mount wagered or a combination of a fixed daily fee plus a percentage of the amount agered. We have the ability to lease these gaming machines on a participation basis ecause of the superior performance of the game and/or the popularity of the brand, which enerates higher wagering and net win to the casinos or gaming machine operators than the aming machines we sell outright. Participation games include:

Wide-area progressive (WAP) participation games;

Local-area progressive (LAP) participation games; and

Stand-alone participation games.

asino-owned daily fee games, where the casino or gaming machine operator purchases the ase gaming machine and pays a lower daily lease fee for the top box and game;

eased gaming machines;

ideo lottery terminals; and

icensing revenues from licensing our game content and intellectual properties to third arties.

OCUS

ously discussed, we are currently operating in a challenging economic environment and the tion of economic uncertainty, lower demand for replacement products and reduced ities from new or expanded casinos has negatively impacted our consolidated results. We benefit from certain new or expansion projects currently in process, but the breadth and f such opportunities remains uncertain due to the difficult credit environment facing our rs and the risk of continued economic uncertainty. While we expect demand in the nent market will remain sluggish in the near term, it is possible that gaming operators ent buying demand will begin to improve in calendar 2010.

vigate these macroeconomic challenges, we remain focused on five key strategic priorities: growth in our gaming operations business, while selectively investing our capital deployed usiness; 2) grow our United States and Canadian market share by innovating differentiated 3) expand the breadth and profitability of our international business; 4) improve our gross and operating margins; and 5) increase our cash flow from operations.

Priority: Drive growth in our gaming operations business, while selectively investing our apital deployed in that business.

09 Result: During the year ended June 30, 2009, our average installed base of participation machines increased 10.2% over the prior year and, at June 30, 2009, our total installed tion footprint stood at 10,350 units compared to 9,321 units at June 30, 2008. Growth in the base was primarily led by our WAP gaming machines, which at June 30, 2009 comprised f the footprint compared to 19.5% at June 30, 2008. The WAP footprint increased by 703 he year ended June 30, 2009 compared to June 30, 2008, largely reflecting the successful f new games on our new participation product lines. The increase in WAP games ed 68.3% of the total annual increase in installed participation gaming machines. A shift in in fiscal 2007 to focus on return on investment of our gaming operations assets helped revenue per day for the year ended June 30, 2009 increasing by 10.4% to a record $69.93 rom $63.34 per day for fiscal 2008. This strategy includes limiting the number of gaming s for specific new themes at each casino and re-deploying gaming machines from casinos g lower revenue per day to casinos generating higher revenue per day. By controlling the acement of participation products, we continued to reduce the capital invested in gaming s compared to the prior year. A 10.4% improvement in the average daily revenue, coupled 10.2% improvement in the average installed base, produced a 21.3% year-over-year in participation revenue in our gaming operations business to $246.7 million, which attests ntinued strong play levels and player appeal of our participation products.

f Contents

Priority: Grow our United States and Canadian market share by innovating differentiated roducts.

009 Result: The United States and Canadian replacement cycle has lengthened and the es facing our industry and the overall economy have continued, thus overall industry has been reduced. Our year-over-year new unit shipment volume comparison was negative impacted by lower overall industry demand, a tough comparison as the prior year included f more than 1,000 units to Native American casinos in California following the passage of referendum, partially offset by the current year being favorably impacted by rapid ce of our newly launched, premium-priced *Bluebird2* gaming machine. As a result of these our new unit shipments in the United States and Canada were down 7.6% compared to the r. To further diversify our revenue streams, we announced late in fiscal 2009 that we would enter the Class II, electronic bingo and central determinant market following expiration of ious licensing agreements for those markets. Through an alliance with Bluberi Gaming ogies Inc. (Bluberi), a Canadian-based technology firm, over time we will combine our ibrary of over 200 for-sale games with Bluberi s proven system capabilities for the Class II, c bingo and central determinant markets. We are dependent, in part, on innovative new , casinos expansions and new market opportunities to generate growth. We have continued se our spending on research and development activities to be able to offer creative and high roducts to our customers and for the year ended June 2009, such expenses are up $18.5 r 23.2% over the prior year to $98.4 million. Expansion and new market opportunities may m political action as governments look to gaming to provide tax revenues in support of ograms and view gaming as a key driver for tourism.

Priority: Expand the breadth and profitability of our international business.

009 Result: Shipments to international markets represented 36.6% of our total new unit s in the year ended June 30, 2009, compared with 35.2% for the prior year. During the year une 30, 2009 international new unit shipments decreased 1.4% from the prior year, as c challenges are evident in some regions, principally Western European markets, as well as act of the higher mix of premium *Bluebird2* units. We are accomplishing continued onal success through the simultaneous introduction of new products in the Canadian and international markets, thereby capitalizing globally on the popularity and success of our roducts. In late fiscal 2008, Orion Gaming launched its new *Twinstar2* gaming machine ew *N-Able* operating system which we expect will drive greater demand for Orion Gaming in the future. In April 2009, we announced a new value-priced gaming platform called hich will be targeted at select international markets where the economics of the facilities ustify the premium priced points of the *Bluebird, Bluebird2* or Orion s *Twinstar or r2* gaming machines. In fiscal 2010, we also will begin selling new units directly to s in Mexico and New South Wales, Australia through a local distributor, two markets that ously served through content licensing agreements with third parties. Also, we continue to benefits from the opening of new international offices and the addition of new ically dispersed sales account executives.

Priority: Improve our gross margins and operating margins.

009 Result: Our operating margin improved 320 basis points to 19.3% for the year ended 2009 from 16.1% for the prior year, even as research and development expenses increased r year by $18.5 million, or 23.2%. For the year ended June 30, 2009, our overall gross mproved by 410 basis points to 63.5% led by a 310 basis point increase to 51.5% in our

sales gross margin largely attributable to the solid sales of and margin achieved with our
mium *Bluebird2* gaming platform and an increase in our gaming operations margin to
We are still implementing our lean sigma and strategic sourcing initiatives, but we are
g positive results, and we believe these initiatives will continue to drive margin
ment in future years. In the future we expect to benefit from higher average selling prices
e revenues coupled with an expanded volume of business that should result in greater
discounts from our suppliers and enable us to spread our manufacturing overhead costs over
number of units thereby reducing cost per unit.

f Contents

on, through disciplined cost management, we continue to expect to realize operating from higher revenues as our total operating costs are not expected to grow at the same ge as revenues. Our research and development spending includes the ongoing investment making to create intellectual property and advanced technologies that will power our ve products in the future and support our existing product lines. We believe our product ment capabilities, combined with additional functionalities and enhanced features of our d technologies and gaming platforms, enable us to optimize the entertainment value of our and improve our gross margins and operating margins.

Priority: Increase our cash flow from operations.

009 Result: For the year ended June 30, 2009 net cash provided by operations was ble to the prior year reflecting a decrease by $7.0 million to $179.2 million, or 3.8%. The provided by operations for the year ended June 30, 2009 reflects higher net income, income tax expense and other non-cash items more than offset by a reduction in tion and amortization and changes in operating assets and liabilities. These operating asset ility changes were impacted by a combination of our granting a greater amount of rm financing options for select customers during these challenging economic times and a ercentage of new units shipped in the last month of the quarter, which was partially offset ontinued cross functional focus on improving utilization of working capital resulting in g our inventory turns and better management of our accounts payables. In addition, in our vs from investing activities we made significant improvement in our management of the eployed in our gaming operations business. During fiscal 2009, the installed footprint of tion gaming machines increased 1,029 units or 11.0%, while our investment in gaming ns equipment totaled $47.0 million, compared to the $50.4 million invested in the prior a result of the strong cash flow from operations, our total cash, cash equivalents and l cash as of June 30, 2009, rose 29.3% to $154.7 million from $119.6 million as of June 30,

rities for the utilization of our cash flow are to; continue to enhance stockholder value by zing internal and external investments to create and license advanced technologies and ual property; seek acquisitions that can extend our international presence, increase our al property portfolio and expand our earnings potential; and, when appropriate, repurchase the open market or in privately negotiated transactions. For the year ended June 30, 2009, rch and development spending increased $18.5 million over the prior year. We spent $53.3 in property, plant and equipment, $47.0 million on additions to gaming operations ent, $13.5 million to acquire or license intangible and other assets and we funded nately $40.5 million of common share repurchases.

eve that server-enabled networked gaming (NG) will be the next significant technology ment in the gaming machine industry. NG refers to a networked gaming system that links f server-enabled gaming machines to a remote server in the casino data center. Once the machines are connected to the server-enabled network, new applications, game ality, and system-wide features can be enabled. These networks will require regulatory in gaming jurisdictions prior to any implementation and will represent a significant to our existing portfolio of product offerings. We have been introducing the foundational

gies and hardware for NG to the market through our new participation product lines since
ember 2006 quarter and we continued to implement this strategy in fiscal 2009 leading up
nch of our *WAGE-NET* NG system in fiscal 2010.

on for NG expands on the basic functionality of downloadable games, remote configuration g denominations and central determination of game outcomes, and emphasizes enhanced y and excitement for the player. In a networked environment, we believe game play will no e limited to an individual gaming machine; rather, we believe NG will permit game play to unal among many players. We also expect that with networked gaming machines we will o offer system wide features and game

38

f Contents

ality along with applications that add value to casino operators operations. We will continue lopment, working with our competitors and customers to ensure the future is powered by standards approach where games, networks, servers and software from multiple suppliers atible with each other through the use of industry standard communication protocols.

to the NG marketplace takes elements of our technology road map and converts them into cializable products in advance of the launch of the full functionality of NG systems. Fiscal s highlighted by the successful launch of our *Community Gaming* participation product le possible by using a server outside the gaming machine to drive the bonusing activity for bank of games, thereby creating a true communal gaming experience. In fiscal 2007, we mercialized the next step forward in computing power and capability with our *CPU-NXT2* g system and platform, which is also the basis for our server-enabled *Bluebird2* gaming s that we launched in the December 2008 quarter. *CPU-NXT2* also drives our *Transmissive* rticipation product line and real-time, 3D graphics and surround sound capabilities for our Immersion participation product line. We combined an interactive see-through liquid isplay (LCD) with the traditional appeal of authentic mechanical spinning reels to make *ssive Reels* a potential fixture for mechanical reel gaming machines on the NG slot floor. ched *Adaptive Gaming*, another key component to our NG technology in July 2008. We d a soft launch of our new server-ready *Bluebird2* gaming machine in the September 2008 with the commercial launch beginning in the December 2008 quarter. At the *G2E* trade November 2008 and the IGE trade show in January 2009, we also demonstrated the erability of our *WAGE-NET* system, *Bluebird2* gaming machines using the *CPU-NXT2* g system and new games with other manufacturers products and systems using industry communication protocols developed by the Gaming Standards Association (GSA): *G2S*

ary 2008, we entered into a ten-year non-exclusive, royalty-bearing patent cross-license nt with International Game Technology Inc., (IGT). This agreement provides for a cross of intellectual property evidenced by certain patents owned by each of us relating to ng and NG infrastructures. In May 2008, we received GLI approval on the first-point f our *WAGE-NET* NG system, incorporating GSA communication standards and basic NG ality, which as part of a technical beta test was placed at a popular tribal casino. We GLI approval for the second-point release of *WAGE-NET* in January 2009 which has been cal beta test at popular casinos on the East Coast and will be in a technical beta test in ppi later this year. In July 2008, we received approval for the first-point release of *NET* from the Nevada gaming regulators and began a field trial at a popular Las Vegas strip n December 2008, after successful completion of the field trial, we obtained the approval evada Gaming Commission of the first generation *WAGE-NET* system, including the configuration and downloadable applications. This version of *WAGE-NET* is GSA nt, demonstrates our total commitment to support open architecture and standards-based s that our casino customers want and should expect, and will be further refined with al features and functionality as we move forward toward a commercialized version of the *NET* system in fiscal 2010.

KEY FISCAL 2009 ACTIVITIES

Stock Repurchase Program

st 3, 2009, our Board of Directors authorized the repurchase of an additional $75 million mmon stock over the following twenty-four months increasing our remaining repurchase ation to approximately $150 million. This authorization increases the existing program, ly authorized on August 4, 2008, from $150 million to $225 million and extended the n date to August 3, 2011. Pursuant to the authorization, purchases may be made from time n the open market, through block purchases or in privately negotiated transactions. The nd actual number of shares repurchased will depend on market conditions. During fiscal e purchased 1,602,470 shares for approximately $35.5 million at an average cost of ately $22.15 per share.

39

f Contents

AL ACCOUNTING POLICIES AND ESTIMATES

solidated Financial Statements were prepared in conformity with accounting principles y accepted in the United States. Accordingly, we are required to make estimates ating judgments and assumptions we believe are reasonable based on our historical ce, contract terms, trends in our company and the industry as a whole, as well as ion available from other outside sources. Our estimates affect amounts recorded in the statements and actual results may differ from initial estimates. Our accounting policies are ly described in Note 2, Principal Accounting Policies in our Consolidated Financial ts.

ider the following accounting estimates to be the most critical to fully understand and our reported financial results. They require us to make subjective or complex judgments atters that are inherently uncertain or variable. Senior management discussed the ment, selection and disclosure of the following accounting estimates, considered most to changes from external factors, with the Audit and Ethics Committee of our Board of .

Recognition

uate the recognition of revenue based on the criteria set forth in the following accounting cements; American Institute of Certified Public Accountants (AICPA) Statement of (SOP) 97-2, *Software Revenue Recognition* , as amended by SOP 98-9, *Modification of 2, Software Revenue Recognition With Respect to Certain Transactions* , Staff Accounting (SAB) No. 101, *Revenue Recognition in Financial Statements* , as revised by SAB No. 104, *e Recognition* and Emerging Issues Task Force (EITF) Issue 00-21 , *Accounting for Revenue ments with Multiple Deliverables* . Our revenue recognition principle for both product sales ng operations is to record revenue when all the following criteria are met:

ersuasive evidence of an agreement exists;

he price to the customer is fixed or determinable;

elivery has occurred, title has been transferred, and any acceptance terms have been lfilled;

o significant contractual obligations remain; and

ollectibility is reasonably assured.

ning whether these requirements have been met may require us to make assumptions and judgment that could significantly impact the timing and amount of revenue reported each In addition, we may enter into arrangements which include multiple elements or bles such as gaming machines, software systems and services. In such cases additional ts and estimates are necessary to ensure the appropriate amounts of revenue are recorded in period. We annually investigate sales contracts with extended payment terms in excess of to determine if there is sufficient history to prove assurance of collectability under the sales contract payments terms. Based upon this investigation, we have concluded that supporting historical documentation exists to conclude collectability is probable for sales with extended payment terms of 36 months or less.

ication of revenue recognition policies is critical due to the nature of the product sales we execute. When multiple product deliverables are included under a sales contract, we revenue to each product based upon its respective fair value against the total contract value r revenue recognition on those deliverables where we have not met all requirements of recognition. Fair value is determined based on the prices charged when each element is arately. Revenues are recognized in accordance with our accounting policies for the elements when the products have value on a stand-alone basis and fair value of the separate exists. While determining fair value and identifying separate elements requires judgment, fair value and the separate elements are readily identifiable as we also sell those elements panied by other elements. In accordance with EITF 00-21 we allocate revenue to each unit nting

40

f Contents

on its fair value as determined by vendor specific objective evidence (VSOE). VSOE of e for all elements of an arrangement is based upon the normal pricing and discounting for those products and services when sold individually.

ication of our revenue recognition policies and changes in our assumptions or judgments e timing and amounts of our revenues, cost of gaming operations, and cost of product sales. ipate an increase in our deferred revenues as we enter into NG in fiscal 2010 which we ill result in an increasing number of multiple element contracts that include software and our product becomes subject to accounting rules for software revenue recognition. Deferred otaled $7.5 million at June 30, 2009 and $5.2 million at June 30, 2008.

and stand-alone participation gaming machines, revenues are calculated based on gaming performance data provided to us by our customers (such as a percentage of the amount of a machine s win per day or fixed fee based on the actual number of days the gaming machine ne casino floor). Due to the timing of the receipt of such performance data, we are required estimates of our LAP and stand-alone participation revenue based on an analysis of the d data reported to us and taking into account anticipated or known events that may affect rical trend, such as contract cancellations or additional gaming machine placements at a r customer s facility. We compare our estimates to the actual data, once received, and adjust nue estimates accordingly.

y the provisions of SOP 97-2, to sales of certain of our products, when appropriate. SOP narily effects our *Bluebird2* and Systems in Progress GmbH (SiP) revenues and will impact evenues in a NG environment because development of *Bluebird2*, SiP and future NG has become more focused on computer software applications and systems to be sold and an our previous products. As we begin to commercialize NG system software in fiscal e application of SOP 97-2 will require us to obtain VSOE from third parties for each NG product prior to recognizing revenue on any related gaming machine sales which may recognition of revenue, and increase deferred revenues and deferred costs.

ication of this policy affects the level of our product sales and gaming operations revenue, roduct sold, cost of gaming operations, accounts receivable, deferred revenue, deferred accrued expenses. Other than the expanded application of SOP 97-2 with the launch of the 2 platform in fiscal 2009, in fiscal 2009, 2008 and 2007, we had no material changes in the ccounting estimates arising from the application of this policy and we do not anticipate changes in the near term.

Tax Accounting

uct business globally and are subject to income taxes in US federal, state, local, and urisdictions. Determination of the appropriate amount and classification of income taxes on several factors, including estimates of the timing and probability of realization of income taxes, reserves for uncertain income tax positions, and income tax payment timing.

rd deferred income tax assets and liabilities based on temporary differences between the reporting and tax bases of assets and liabilities, applying U.S., state and applicable foreign ion enacted tax rates expected to be in effect for the year in which the differences are to reverse. The ability to realize the deferred income tax assets is evaluated through the ng of taxable income, in each jurisdiction, using historical and projected future operating ne reversal of existing temporary differences, and the availability of tax planning strategies.

y an estimated annual effective income tax rate to our quarterly operating results to e the provision for income tax expense. In the event there is a significant, unusual or nt item recognized in our quarterly operating results, the income tax attributable to that item ed in the interim period in which it occurs. We modify our annual effective income tax rate nd circumstances change between quarters. Our effective income tax rates for fiscal 2009, 2007 were 34.3%, 36.1%, and 31.8%, respectively.

41

f Contents

s have been provided on certain undistributed foreign earnings that are planned to be ely reinvested. If future events, including material changes in estimates of cash, working nd long-term investment requirements necessitate that these earnings be distributed, an al provision for withholding taxes may apply, which could materially affect our future income tax rate.

ter of course, we are regularly audited by various taxing authorities, and sometimes these esult in proposed assessments where the ultimate resolution may result in our owing al taxes. We establish reserves when, despite our belief that our tax return positions are ate and supportable under local tax law, we believe certain positions are likely to be ed and we may not succeed in realizing the income tax benefit. We evaluate these reserves arter and adjust the reserves and the related interest in light of changing facts and ances regarding the probability of realizing tax benefits, such as the progress of a tax audit piration of a statute of limitations. We believe the estimates and assumptions used to our evaluation of tax benefit realization are reasonable. However, final determinations of r income tax liabilities, either by settlement with tax authorities or expiration of statutes of ns, could be materially different than estimates reflected in our Consolidated Balance nd historical income tax provisions in our Consolidated Statements of Income. The of these final determinations could have a material effect on our income tax provision, net or cash flows in the period in which that determination is made. We believe our income tax s comply with applicable tax law and that we have adequately provided for any known ax contingencies.

fiscal 2008, we recognized income tax accruals with respect to uncertain income tax based upon Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for ncies.* We currently apply Financial Accounting Standards Board (FASB) Interpretation N) 48 *Accounting for Uncertainty in Income Taxes* (FIN 48). Upon adoption of FIN 48 we a $1.8 million increase in our liability for unrecognized income tax benefits with a nding reduction in our retained earnings as of July 1, 2007. Under FIN 48, the benefits of ax positions that are more likely than not of being sustained upon audit based on the l merits of the tax position are recognized in our Consolidated Financial Statements; s that do not meet this threshold are not recognized. For income tax positions that are at re likely than not of being sustained upon audit, the largest amount of the benefit that is ely than not of being sustained is recognized in our Consolidated Financial Statements.

lication of this policy affects the level of our income tax expense, current income tax les and liabilities, and current and non-current deferred income tax assets and liabilities. an the $1.8 million impact from the adoption of FIN 48 effective July 1, 2007, in fiscal 08 and 2007, we had no material changes in the critical accounting estimates arising from cation of this policy and we do not anticipate material changes in the near term. See Note 9, Taxes to our Consolidated Financial Statements.

ptember 2008 quarter, the Internal Revenue Service began an audit of our U.S. federal ax returns for fiscal years 2004 through 2007. In addition, we are currently under audit in a ate for the same years. As a result of these audits it is reasonably possible that the total of the unrecognized income tax benefits will significantly change within the next 12 At this time we are unable to estimate the amount of the potential change. Approximately lion of unrecognized income tax benefits are currently subject to the audits referred to t this time we believe appropriate provisions for all outstanding issues have been made for ictions and all open years. We, or one of our subsidiaries, files income tax returns in the eral, various state, local and foreign jurisdictions. We are no longer subject to any nt U.S. federal, state, local or foreign income tax examinations by tax authorities for years scal 2004.

ased Compensation Expense

unt for share-based compensation in accordance with the provisions of SFAS No. 123 2004), *Share-Based Payment* (SFAS 123R). Pre-tax share-based compensation expense 0 million, $15.2 million, and $12.4 million for fiscal 2009, 2008 and 2007, respectively. In 09, we recorded a provision for equity-base performance units outstanding of $3.4 million e to the thirty-six month periods

f Contents

une 30, 2009, 2010 and 2011, based on the current assessment of achievement of the ance goals. In fiscal 2008, we recorded a provision for equity-base performance units ing of $2.7 million that relate to the thirty-six month periods ended June 30, 2009 and sed on the current assessment of achievement of the performance goals. Additional charges ecorded in future periods depending on the assessment of achievement of the performance ior to fiscal 2008, we concluded that the achievement of the performance goals was not and therefore a provision related to the awards was not required.

e fair value recognition provisions of SFAS 123R, stock-based compensation cost is d at the grant date based on the fair value of the award and is recognized as expense ratably requisite service period of the award. Determining the appropriate fair value model and ng the fair value of share-based awards requires judgment, including estimating stock price y, forfeiture rates and expected life. If actual results differ significantly from these s, share-based compensation expense and our results of operations could be materially . See Note 2, Principal Accounting Policies to our Consolidated Financial Statements.

lication of this policy affects the level of our cost of product sales, cost of gaming ns, research and development expenses, selling and administrative expenses, additional apital and income tax expense. During fiscal 2009, 2008 and 2007, we had no material n the critical accounting estimates arising from the application of this policy and we do not e material changes in the near term.

ces for Slow-Moving and Obsolete Inventories

e inventory based on estimates of potentially excess and obsolete inventory after ng forecasted demand and forecasted average selling prices. However, forecasts are subject ons, cancellations and rescheduling. Actual demand may differ from anticipated demand, differences may have a material effect on our Consolidated Financial Statements. Demand inventory is subject to technical obsolescence. Inventory on hand in excess of forecasted s written down to net realizable value.

e market exists mostly outside of North America for used gaming machines. When we gaming machine on trade-in, we estimate a carrying value for the gaming machine. The based upon an estimate of the condition of the gaming machine, as well as our experience g used gaming machines and could change due to changes in demand in general for used machines. We either sell these trade-ins as-is or renovate the gaming machines before We also sell participation gaming machines as used gaming machines when we no longer m in our gaming operations business. Therefore, we review our used gaming machine y for impairment on a quarterly basis. Actual demand for new and used gaming machines fer from anticipated demand, and such differences may have a material effect on our ated Financial Statements.

over 4,900 and over 4,500 used gaming machines in fiscal 2009 and 2008, respectively. At 2009 and 2008, our inventories included 1,303 and 748 legacy gaming machines, ely, and $1.0 million and $1.4 million of total legacy inventory, respectively.

iscal 2009, 2008 and 2007 we recorded provisions for inventory write-downs of $13.3 $10.1 million and $5.3 million, respectively.

ication of this policy affects the amount of our inventory and cost of product sales. In fiscal 08 and 2007, we had no material changes in the critical accounting estimates arising from cation of this policy and we do not anticipate material changes in the near term.

tion Gaming Machine Depreciation and Net Realizable Value

eciate the *Bluebird* and *Bluebird2*-branded participation gaming machines over a three-year fe to residual value, while we depreciate the top boxes over a one-year useful life. A adverse impact could occur if the actual useful life of the participation gaming machines or s is less than what was used

43

f Contents

ating depreciation expense, or if actual residual value is less than the anticipated residual
June 30, 2009 and 2008 we had $68.0 million and $75.4 million net book value of gaming
ns equipment recorded in our Consolidated Balance Sheet. On a quarterly basis we assess
ying value of our gaming operations equipment and adjust the carrying value to net
e value as appropriate based on expected future usage.

ication of this policy affects the level of our gaming operations equipment, accumulated
tion on gaming operations equipment, cost of gaming operations, depreciation expense,
ax expense and deferred income tax assets and liabilities. In fiscal 2009, 2008 and 2007,
o material changes in the critical accounting estimates arising from the application of this
d we do not anticipate material changes in the near term.

ual Property and Licensed Technology Valuations

se intellectual property and technologies from third parties that we use in our games and
machines. At June 30, 2009 and 2008, we had $68.6 million and $67.1 million capitalized
Consolidated Balance Sheets for such costs, along with commitments not on our
dated Balance Sheets for an additional $112.7 million and $21.0 million, respectively,
g contingent payments. As part of our contracts with the licensors, we typically provide a
n guaranteed commitment and prepay royalties and license fees, usually at the time the
is signed, even though the product may not be introduced until months or years later. We
e the royalty and license fee advances as intangible assets.

oducts using the licensed intellectual property or technology begin to generate revenue, we
mortization of the amount advanced. In cases where the advance represents a paid up
he advance is amortized based on the estimated life of the asset. In those cases where the
greement provides for a royalty to be earned by the licensor for each gaming machine sold
d on a lease, the advance is amortized based on the royalty rates provided in the license
nt. In both cases the amortization of the advances are included in cost of product sales if
o a product sale or cost of gaming operations if related to placement or lease of gaming
ns equipment. We regularly evaluate the estimated future benefit of royalty and license fee
s, as well as minimum commitments not yet paid, to determine amounts unlikely to be
from forecasted sales or placements of our gaming machines. If actual or revised forecasts
v the initial estimate, then we may need to revise the remaining useful life and/or record an
ent charge to write down the asset to net realizable value as we did in the fiscal 2008 when
ded a $3.7 million pre-tax write-down to net realizable value for a licensed technology.

7, Intangible Assets and Note 13, Commitments, Contingencies, and Indemnifications, to
olidated Financial Statements for further information. The application of this policy affects
of our current assets, non-current assets, current liabilities, cost of product sales, cost of
perations, research and development expense and selling and general expense. Other than
l year 2008 pre-tax write down of $3.7 million to net realizable value for a licensed
gy, in fiscal 2009, 2008 and 2007, we had no material changes in the critical accounting
arising from the application of this policy and we do not anticipate material changes in the
n.

TLY ISSUED ACCOUNTING STANDARDS

mber 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). 7 defines fair value, establishes a framework for measuring fair value in accordance with accepted accounting principles, and expands disclosures about fair value measurements. 57 does not require any new fair value measurements, but provides guidance on how to fair value by providing a fair value hierarchy used to classify the source of the information. ent to the issuance of SFAS 157, the FASB issued FASB Staff Position (FSP) 157-2 *e Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 delays the effective date of 7 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or at fair value in the financial statements on a recurring basis. For the instruments

44

f Contents

o the effective date delay under FSP 157-2, the effective date to adopt the fair value ns for us will be July 1, 2009. On October 10, 2008, the FASB issued FSP No. 157-3, *ining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* . FSP 3 does not change the fair value measurement principles in SFAS 157, but rather provides for the application of those measurement principles in the extreme inactive markets that y exist. The adoption of SFAS 157 in fiscal 2009 had no material impact on our ated Financial Statements.

ary 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and l Liabilities including an amendment of SFAS 115* , (SFAS 159). SFAS 159 permits entities e to measure many financial instruments and certain other items at fair value that are not y required to be measured at fair value. The objective of SFAS 159 is to reduce both ity in accounting for financial instruments and the volatility in earnings caused by ng related assets and liabilities using different measurement techniques. The fair value ment provisions are elective and can be applied to individual financial instruments. 9 requires additional disclosures related to the fair value measurements included in the financial statements. We adopted this Statement beginning July 1, 2008 which had no impact on our Consolidated Financial Statements.

2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* , 42-3). FSP 142-3 amends the factors that should be considered in developing renewal or n assumptions used to determine the useful life of a recognized intangible asset under SFAS *Goodwill and Other Intangible Assets* , (SFAS 142). Previously, under the provisions of 2, an entity was precluded from using its own assumptions about renewal or extension of gement where there was likely to be substantial cost or material modifications. FSP 142-3 the requirement of SFAS 142 for an entity to consider whether an intangible asset can be without substantial cost or material modification to the existing terms and conditions and an entity to consider its own experience in renewing similar arrangements. FSP 142-3 is for fiscal years beginning after December 15, 2008 and interim periods within those fiscal hich for us will be in Fiscal 2010. Early adoption is prohibited. The disclosure requirements applied prospectively to all intangible assets recognized as of, and subsequent to, the e date. We will continue to evaluate the impact of the provisions of FSP 142-3 on our ated Financial Statements.

009, the FASB issued SFAS No. 165, *Subsequent Events* , which establishes principles and ents for reporting events or transactions occurring after the balance sheet date. It requires to disclose the date through which subsequent events have been evaluated and whether is the date the financial statements were issued. This pronouncement also requires an entity der supplementing the financial statements with pro forma financial information if an nized subsequent event is significant and to reissue financial statements filed with the SEC regulatory agencies if failure to do so could make the financial statements misleading. We his statement for the quarter ended June 30, 2009 and updated our disclosures accordingly.

009, the FASB issued SFAS No. 168, *Accounting Standards Codification and Hierarchy rally Accepted Accounting Principles* , which establishes the Codification as the single f authoritative US GAAP. This statement is effective for interim and annual statements fter September 15, 2009 and will change the way we reference accounting standards in ings.

TS OF OPERATIONS

st Hurricanes

y both property and business interruption insurance. We incurred damages to our leased
n Gulfport, Mississippi in August 2005 which was covered by our property insurance, after
ctible. We began litigation relating to our business interruption claims against the insurance
r in the Mississippi courts in the September 2006 quarter and the trial occurred in March
n August 4, 2009, we received a judgment in our favor but based on the court s
ation of the policy, only nominal damages were awarded to us. This judgment will have no
impact on our Consolidated Financial Statements.

f Contents

ity

our gaming machines to casinos are generally strongest in the spring and slowest in the months, while gaming operations revenues are generally strongest in the spring and Typically our total revenues are lowest in the September quarter and build in each ent quarter with the June quarter generating our highest total quarterly revenues. In quarterly revenues and net income may increase when we receive a larger number of s for new games from regulators than in other quarters, when a game or platform that significant player appeal is introduced, if a significant number of new casinos open or casinos expand, or if gaming is permitted in a significant new jurisdiction.

ear Ended June 30, 2009 Compared to Fiscal Year Ended June 30, 2008

e our Revenues, Gross Margins and Key Performance Indicators. This information should n conjunction with our Consolidated Statements of Income (in millions, except unit and per a):

	Year Ended June 30,		Increase	Percent Increase
	2009	**2008**	**(Decrease)**	**(Decrease)**
Sales Revenues				
sales revenues	$ 375.1	$ 358.0	$ 17.1	4.8%
oduct sales revenues	63.4	63.2	0.2	0.3
duct sales revenues	$ 438.5	$ 421.2	$ 17.3	4.1
s sold	26,406	27,931	(1,525)	(5.5)
sales price per new unit	$ 14,203	$ 12,817	$ 1,386	10.8
ofit on product sales (1)	$ 225.7	$ 203.9	$ 21.8	10.7
argin on product sales (1)	51.5%	48.4%	310 bp	6.4
Operations Revenues				
tion revenues	$ 246.7	$ 203.4	$ 43.3	21.3
ming operations revenues	21.2	25.5	(4.3)	(16.9)
ning operations revenues	$ 267.9	$ 228.9	$ 39.0	17.0
ming machines at year end	2,523	1,820	703	38.6
ning machines at year end	2,386	2,134	252	11.8
one gaming machines at year	5,441	5,367	74	1.4
talled participation base at	10,350	9,321	1,029	11.0

participation installed base	9,666	8,771	895	10.2
revenue per day per tion machine	$ 69.93	$ 63.34	$ 6.59	10.4
casino-owned daily fee year end	507	819	(312)	(38.1)
casino-owned daily fee stalled base	763	776	(13)	(1.7)
ofit on gaming operations (1)	$ 223.2	$ 182.3	$ 40.9	22.4
rgin on gaming operations (1)	83.3%	79.6%	370 bp	4.6
venues	**$ 706.4**	**$ 650.1**	**$ 56.3**	**8.7**
oss profit(1)	**$ 448.9**	**$ 386.2**	**$ 62.7**	**16.2**
oss margin(1)	**63.5%**	**59.4%**	**410 bp**	**6.9**
erating income	**$ 136.6**	**$ 104.4**	**$ 32.2**	**30.8**
erating margin	**19.3%**	**16.1%**	**320 bp**	**19.9**

oints
d herein, gross profit and gross margin exclude depreciation and distribution expense.

46

f Contents

and Gross Profit

enues for fiscal 2009 increased 8.7%, or $56.3 million, over the fiscal 2008, reflecting:

$17.1 million, or 4.8%, increase in new unit sales revenue as a result of:

A 10.8% increase in the average selling price of new gaming machines to a record $14,203, principally reflecting the greater sales mix of premium-priced products, which included the sale of more than 9,200 *Bluebird2* gaming machines, representing approximately 35.0% of our total new unit sales.

Partially offset by a 1,525 unit, or 5.5%, decrease in new units sold as:

- Ø New units sold in the United States and Canada totaled 16,732 units, a decrease of 7.6%, due to lower industry demand resulting from the slowing economy and tightening in the credit markets. Fiscal 2008 included the impact of the sale of more than 1,000 units to Native American casinos in California following the passage of a voter referendum.
- Ø International new units sold decreased 1.4% from the prior year to 9,674 units, reflecting economic challenges and tightening credit markets across some of the international regions, principally the Western European markets.
- Ø Sales of mechanical reel products totaled 6,360 units, or approximately 24.1% of total new units sold compared to 29.9% of units sold in the prior year. We believe our customers reduced their capital spending on this product line in the first half of fiscal 2009 in advance of our launch of the new *Bluebird2* mechanical reel gaming machine with *Transmissive Reel* technology late in March 2009 quarter; and
- Ø We launched our new networked-enabled *Bluebird2* video gaming machines in the December 2008 quarter, followed by the 5-reel mechanical *Bluebird2* in the March 2009 quarter and the 3-reel mechanical and slant version of the *Bluebird2* in the June 2009 quarter. We had expected that *Bluebird2* gaming machines would have accounted for 15.0% to 20.0% of our total unit sales in fiscal 2009, however due to the higher earnings performance experienced by our customers for these products, they accounted for 35.0% of our annual new unit shipments. With a list price 20.0% higher than our *Bluebird* gaming machines and our customers fixed capital budgets, some customers were not able to afford to buy as many *Bluebird2* gaming machines as if they had purchased our *Bluebird* gaming machines, and we believe this also had a negative impact on the number of new unit sales in fiscal 2009.

$0.2 million, or 0.3%, increase in other product sales revenues, reflecting higher sales of wer-margin used gaming machines and parts, partially offset by a slight decrease in game nversion revenues:

We sold over 4,900 used gaming machines during the fiscal 2009, compared to over 4,500 used gaming machines in the prior year; and

We earned revenue on more than 9,300 game conversion kits in fiscal 2009, compared to 9,000 game conversion kits in the prior year, however conversion revenues decreased slightly in fiscal 2009 as the average selling price achieved was modestly lower than in fiscal 2008.

$43.3 million, or 21.3%, growth in participation revenues due primarily to:

A 10.2% increase, or 895 units, in the average installed base of participation gaming machines in fiscal 2009 driven by the growth in our stand-alone, WAP and LAP gaming machines. Our controlled roll-out strategy has led to the desired result of a higher level of incremental footprint for our products. The stand-alone installed base increased by 74 units primarily due to growth in our *Community Gaming* product line series throughout the last twelve months and the launch in the September 2008 quarter of our fourth new participation product line, *Adaptive Gaming*. The LAP units in the installed base as of June 30, 2009 increased by 252 units compared to the prior year due to new game series launched during fiscal 2009. The WAP units in the installed base at June 30,

47

f Contents

2009 was 38.6% or 703 units higher than at June 30, 2008, reflecting continued strong performance of our Sensory Immersion and *Transmissive Reels* product lines and our latest WAP game, *Reel Em In Compete to Win*. The WAP installed base accounted for 24.4% and 19.5% of the installed base at June 30, 2009 and 2008, respectively; and Overall average revenue per day increased by $6.59, or 10.4%, principally reflecting favorable player response to the new games for our four innovative participation product lines and our active program to relocate low-performing participation gaming machines to casinos where we expect higher performance.

$4.3 million, or 16.9%, decrease in other gaming operations revenues as we experienced wer royalty revenues as a result of license agreements for certain markets coming to the nd of the license term and us electing to not renew such agreements so we can directly enter ese markets, such as Class II and Australia.

ss profit, as used herein excluding depreciation and distribution expense, increased 16.2%, million, to $448.9 million for the year ended June 2009 from $386.2 million for the prior r gross margins may not be comparable to those of other entities as we include the costs of tion, which amounted to $21.4 million and $20.4 million in fiscal 2009 and 2008 ely, in selling and administrative expenses. This improvement reflects:

ross margin on product sales revenues was 51.5% for fiscal 2009, compared to 48.4% for e prior year. Gross margin for fiscal 2009 reflects continued operating improvements, rimarily resulting from our lean sigma and strategic sourcing initiatives, coupled with a gher average selling price due to greater sales of premium gaming machines, including our ew *Bluebird2* platform and partially offset by a lower volume of business and $3.2 million higher excess and obsolete inventory charges as we transition to the new *Bluebird2* aming machine. We launched the *Bluebird2* gaming machine in the December 2008 quarter nd met our goal of achieving a similar gross margin for this new product as we were urrently achieving for the original *Bluebird* product; and

ross margin on gaming operations revenues was 83.3% in fiscal 2009, compared to 79.6% om the prior year, reflecting favorable WAP jackpot expense experience and the positive fluence of the higher revenue per day from our high performing *Community Gaming*, ensory Immersion, *Transmissive Reels* and *Adaptive Gaming* games partially offset by the eater number of WAP gaming machines, which have a lower gross margin, in the installed ase.

ct to generate continued revenue growth in fiscal 2010 and fiscal 2011 as we increase our arket share due to the popularity of our products, launch new, expanded market distribution nities, increase our average selling price as our premium *Bluebird2* gaming machines a higher percentage of overall sales and continue to grow our participation installed base age revenues per day through the introduction of new and innovative participation games uct lines. We expect royalty revenues to decline in fiscal 2010 and 2011 from fiscal 2009 several of our content licensing agreements terminated in fiscal 2009 or were in an agreed l-off period. We expect continued improvements in our product sales gross margin, g from the ongoing implementation of process improvements throughout the entire tion with the utilization of lean sigma tools to improve quality and eliminate waste, results r strategic sourcing initiatives and the benefits from higher unit volumes and ongoing of the production schedule throughout each quarter.

48

f Contents

g Expenses

g expenses were as follows (in millions of dollars):

	Year Ended June 30,				Increase	
	2009		2008			
	Dollar	As % of Revenue	Dollar	As % of Revenue	Dollar	Percent
and development	$ 98.4	13.9%	$ 79.9	12.3%	18.5	23.2%
nd administrative	145.5	20.6	130.0	20.0	15.5	11.9
tion	68.4	9.7	71.9	11.1	(3.5)	(4.9)
erating expenses	$ 312.3	44.2%	$ 281.8	43.4%	30.5	10.8%

and development expenses increased 23.2% to $98.4 million in fiscal 2009, compared to llion in the prior year. The year-over-year increase reflects:

ur planned expanded product development initiatives for the continued creation of tellectual property and the ongoing expansion of our product portfolio;

gher costs to accelerate new systems and enterprise-wide system applications for our *asino Evolved* suite of innovative, high-value products in preparation for the launch of NG stems in fiscal 2010;

creased payroll-related costs associated with headcount increases to accomplish the itiatives stated above and higher performance-based incentive costs associated with nproved operating performance; and

scal 2008 included a $3.7 million pre-tax write down to net realizable value related to a censed technology.

scal 2009, we introduced 61 new WMS-branded games for sale and 26 new participation no-owned daily fee games, compared to the introduction in fiscal 2008 of 55 new anded games for sale and 25 new participation and casino-owned daily fee games.

nd administrative expenses increased 11.9%, or $15.5 million, to $145.5 million in fiscal npared to $130.0 million in the prior year. The year-over-year increase includes:

creased payroll-related costs primarily related to headcount increases to support ternational expansion and overall growth in our business, and higher performance based centive costs associated with improved operating performance;

on-cash bad debt expenses increasing by $3.6 million to $7.1 million due to the downturn the global economy and an increase in customers filing for protection from bankruptcy; nd

gher legal expense primarily associated with the litigation on insurance claims related to urricane Katrina.

ation expense decreased $3.5 million to $68.4 million in fiscal 2009 compared to $71.9 n the prior year. This reflects improved capital efficiencies achieved in the gaming ns business resulting from the ongoing disciplined rollout of new participation games in lower capital spending and increased longevity of the participation gaming machine nts coupled with a greater number of participation gaming machines reaching salvage

l 2010 and 2011, we expect to increase research and development spending to support our g portfolio of innovative and differentiated product offerings, further our progress with our

f Contents

s, and create new game development tools, technological advancements and innovations in y. The increased spending is also anticipated to support further growth of our game library nce the productiveness of our development efforts. Selling and administrative expenses are ed to increase more modestly in fiscal 2010 and 2011 and are expected to decline slightly ent of revenues in fiscal 2010 and 2011. In line with the more moderate rate of growth for our installed participation footprint, we anticipate our capital investment in gaming ns equipment to flatten or decrease in fiscal 2010 and 2011, and estimate capital ures for property, plant and equipment to increase modestly in fiscal 2010 and 2011.

g Income

ating income increased by $32.2 million or 30.8% in fiscal 2009 on an 8.7% increase in enues. Our fiscal 2009 operating margin of 19.3% represented a 320 basis point increase 16.1% operating margin achieved in the prior year. This improvement was achieved by the ments in both product sales and gaming operations gross margins, coupled with argin gaming operations accounting for 37.9% of total revenues in fiscal 2009 compared to the prior year, partially offset by operating expenses increasing by 10.8%, or 210 basis an the increase in total revenues.

l 2010 and 2011, we expect to continue to achieve improvements in our operating margin vements in revenue and gross profits will be paired with operating expenses being a ower percentage of overall revenues than in fiscal 2009.

Expense

rred interest expense of $4.0 million for both fiscal 2009 and 2008, primarily related to our onvertible subordinated notes, amortization of debt issuance costs, and in fiscal 2009, nd fees on borrowings under our revolving credit facility.

nd Other Income, Net

nd other income, net increased by $2.6 million to $7.8 million for year ended June 2009 d to $5.2 million for the prior year. Fiscal 2009 includes a pre-tax gain of $5.0 million from ttlement we received from trademark litigation.

Taxes

ctive income tax rate was 34.3% in fiscal 2009 compared to 36.1% in fiscal 2008. In early 2008, the Federal research and development tax credit was reinstated retroactive to the g of calendar year 2008 and will continue through calendar year 2009. As the research and ment tax credit legislation will expire on December 31, 2009, we expect our effective ax rate for fiscal 2010 and 2011 to be approximately 36% assuming governments do not tatutory tax rates for those periods.

l 2009 effective income tax rate reflects:

creased pre-tax income;

gher domestic manufacturing deduction; and

instatement of the research and development tax credit in October 2008, retroactive to the eginning of the calendar year 2008. The effective tax rate includes the credit earned from anuary 1, 2008 through June 30, 2008, which aggregated $0.02 per diluted share, in ldition to the tax credit earned during fiscal 2009.

50

f Contents

l 2008 effective income tax rate reflects:

e domestic manufacturing deduction; and

o impact of the Federal research and development tax credit in the March 2008 and June 008 quarters as the legislation had expired on December 31, 2007.

Per Share

arnings per share increased 38.3% on an 8.7% increase in revenues to $1.59 for year ended 9 from $1.15 for prior year. The increase in earnings per share is attributable to increased me for the year and a lower number of diluted common stock and common stock nts primarily driven by our share repurchase program.

f Inflation

he past three years, the general level of inflation affecting us has been relatively low. Our o pass on future cost increases in the form of higher sales prices will depend on the g competitive environment and the acceptance of our products in the marketplace.

f Contents

ear Ended June 30, 2008 Compared to Fiscal Year Ended June 30, 2007

e our Revenues, Gross Margins and Key Performance Indicators. This information should n conjunction with our Consolidated Statements of Income (in millions, except unit and per a):

	Year Ended June 30, 2008	Year Ended June 30, 2007	Increase (Decrease)	Percent Increase (Decrease)
Sales Revenues				
sales revenues	$ 358.0	$ 317.0	$ 41.0	12.9%
oduct sales revenues	63.2	49.3	13.9	28.2
duct sales revenues	$ 421.2	$ 366.3	$ 54.9	15.0
s sold	27,931	25,613	2,318	9.1
sales price per new unit	$ 12,817	$ 12,378	$ 439	3.5
ofit on product sales (1)	$ 203.9	$ 167.7	$ 36.2	21.6
argin on product sales (1)	48.4%	45.8%	260 bp	5.7
Operations Revenues				
tion revenues	$ 203.4	$ 153.6	$ 49.8	32.4
ming operations revenues	25.5	19.9	5.6	28.1
ning operations revenues	$ 228.9	$ 173.5	$ 55.4	31.9
ming machines at year end	1,820	1,507	313	20.8
ning machines at year end	2,134	2,333	(199)	(8.5)
one gaming machines at	5,367	4,436	931	21.0
talled participation base at	9,321	8,276	1,045	12.6
participation installed base	8,771	7,299	1,472	20.2
revenue per day per tion machine	$ 63.34	$ 57.66	$ 5.68	9.9
casino-owned daily fee year end	819	760	59	7.8
casino-owned daily fee stalled base	776	728	48	6.6
ofit on gaming operations (1)	$ 182.3	$ 137.3	$ 45.0	32.8
argin on gaming operations (1)	79.6%	79.1%	50 bp	0.6
venues	**$ 650.1**	**$ 539.8**	**$ 110.3**	**20.4**
oss profit(1)	**$ 386.2**	**$ 305.0**	**$ 81.2**	**26.6**
oss margin(1)	**59.4%**	**56.5%**	**290 bp**	**5.1**
erating income	**$ 104.4**	**$ 74.2**	**$ 30.2**	**40.7**

erating margin	**16.1%**	**13.7%**	**240 bp**	**17.5**

oints
d herein, gross profit and gross margin exclude depreciation and distribution expense.

52

f Contents

r and Gross Profit

enues for fiscal 2008 increased 20.4%, or $110.3 million, over fiscal 2007, reflecting:

$41.0 million, or 12.9%, increase in new unit sales revenue as a result of:

A 2,318 unit, or 9.1%, increase in new units sold.

International new units sold increased 30.2% over the prior year, reflecting growth in China with our Mandarin-based games and continued growth throughout Europe, South Africa and South America;

United States and Canada new units sold in fiscal 2008 were essentially flat to fiscal 2007 due to the continued sluggish United States and Canada replacement market and the slowing of the economy offsetting a higher number of new casino openings and expansions in fiscal 2008;

The United States and Canada new unit sales in fiscal 2008 benefited from shipments of new units to five California casinos as a result of amended compacts while fiscal 2007 benefited from initial and ongoing shipments of new units to properties located in the newly opened Pennsylvania and Broward County, Florida jurisdictions, as well as a strong contribution from Oklahoma which was a new market for us at the time; and

Sales of mechanical reel products totaled 8,344 units, or approximately 29.9% of total new units sold compared to 25.4% of units sold in the prior fiscal year.

A 3.5% increase in the average selling price of new gaming units, principally reflecting the benefit of higher list prices.

$13.9 million, or 28.2%, increase in other product sales revenues, reflecting strong sales of nversion kits and used gaming machines as follows:

We earned revenue on more than 9,000 conversion kits in fiscal 2008, compared to over 7,200 conversion kits in the fiscal 2007 period, due to the positive response to our new video and mechanical reel games; and

We sold approximately 4,500 used gaming machines at higher prices in fiscal 2008, compared to nearly 6,600 used gaming machines in fiscal 2007.

$49.8 million, or 32.4%, growth in participation revenues due primarily to:

A 20.2% increase in the average installed base of participation gaming machines, driven by the growth in our WAP and stand-alone installed bases. The WAP units in the installed base as of June 30, 2008 was 313 units higher than at June 30, 2007, reflecting continued strong performance of our Sensory Immersion and *Transmissive Reels* product lines in fiscal 2008. Our controlled roll-out strategy has led to the desired result of a higher level of incremental footprint for the WAP units. The WAP installed base accounted for 19.5% and 18.2% of the installed base at June 30, 2008 and 2007, respectively; and

Overall average revenues per day increased by $5.68, or 9.9%, principally reflecting favorable player response to the new games for our three new innovative participation product lines.

$5.6 million, or 28.1%, increase in other gaming operations revenues as we experienced a et increase in royalty revenue from third party licensees due to the popularity of our censed games.

ss profit, as used herein excluding distribution and depreciation expense, increased 26.6%, million, to $386.2 million for the fiscal 2008 period from $305.0 million for the fiscal 2007 Our gross margins may not be comparable to those of other entities as we include the costs bution, which amounted to $20.4 million and $17.2 million in fiscal 2008 and 2007 ely, in selling and administrative expenses. This improvement reflects:

ross margin on product sales revenues of 48.4% for the fiscal 2008 period, compared to 5.8% for the fiscal 2007 period. Gross margin for the fiscal 2008 period reflects continued ccess with the ongoing

53

f Contents

nplementation of our lean sigma process improvement and strategic sourcing initiatives, the enefits from a higher volume of business, greater sales of higher-margin conversion kits, d a higher average selling price for new gaming machines, partially offset by a lower mix premium-priced products than a year ago; and

ross margin on gaming operations revenues of 79.6% in the fiscal 2008 period was up ightly from fiscal 2007, reflecting the positive influence of the high performing *Community aming*, Sensory Immersion and *Transmissive Reels* games and favorable overall WAP ckpot experience offset by the greater number of WAP gaming machines in the installed se.

g Expenses

	Year Ended June 30, 2008		2007		Increase	
	Dollar	**As % of Revenue**	**Dollar**	**As % of Revenue**	**Dollar**	**Percent**
and development	$ 79.9	12.3%	$ 58.1	10.8%	$ 21.8	37.5%
nd administrative	130.0	20.0	109.8	20.3	20.2	18.4
tion	71.9	11.1	62.9	11.7	9.0	14.3
erating expenses	$ 281.8	43.4%	$ 230.8	42.8%	$ 51.0	22.1%

n and development expenses increased $21.8 million to $79.9 million in fiscal 2008, d to $58.1 million in the prior year. The year-over-year increase reflects:

ur expanded product development initiatives for the continued creation of intellectual operty and the ongoing expansion of our product portfolio;

gher payroll-related costs resulting from headcount increases and performance based centives associated with improved operating performance;

gher costs to accelerate new systems and enterprise-wide system applications for our suite innovative, high-value products in preparation for the advent of NG;

$3.7 million pre-tax write down to net realizable value related to a licensed technology; d

e inclusion of research and development expenses for SiP since the mid-July 2007 quisition.

iscal 2008, we introduced 55 new WMS-branded games for sale and 25 new participation o-owned daily fee games, compared to the introduction in fiscal 2007 of 49 new games for 28 new participation and casino-owned daily fee games.

and administrative expenses increased $20.2 million to $130.0 million in fiscal 2008 d to $109.8 million in fiscal 2007. The increase includes:

gher marketing, promotion and distribution costs related to the roll-out of new products nd branding initiatives;

creased payroll-related costs associated with headcount increases to support international xpansion and overall growth in our business and performance based incentives associated ith improved operating performance during the past twelve months;

gher spending on customer service activities to support our larger participation installed ase and increased customer touch points; and

gher legal expenses and non-cash charges for bad debt expense, as well as the impact of onsolidating SiP results since the mid July 2007 acquisition.

54

f Contents

ation expense increased $9.0 million to $71.9 million in fiscal 2008 compared to $62.9 n fiscal 2007. This reflects the steady increase in the installed base of participation games ut fiscal 2007 and 2008, as evidenced in the 20.2% year-over-year increase in the average base of participation machines. The increase also reflects depreciation related to SiP. We $50.4 million in gaming operations gaming machines, top boxes and related equipment scal 2008, $75.9 million during fiscal 2007, and $68.7 million during fiscal 2006.

g Income

ating income in fiscal 2008 increased by $30.2 million, or 40.7%, to $104.4 million on a ncrease in total revenues. Our fiscal 2008 operating margin of 16.1% represented a 240 nt increase over the 13.7% operating margin achieved in the prior year. This improvement eved by the improvements in both product sales and gaming operations gross margins, with higher-margin gaming operations accounting for 35.2% of total revenues in fiscal mpared to 32.1% in the prior year, partially offset by operating expenses increasing at 170 basis points greater than the increase in total revenues.

Expense

rred interest expense of $4.0 million and $5.1 million for fiscal 2008 and 2007, ely, primarily related to our 2.75% convertible subordinated notes, amortization of debt costs and, in fiscal 2007, interest and fees on borrowings under our revolving credit

nd Other Income, Net

and other income, net increased by $2.6 million to $5.2 million primarily due to higher ncome earned on cash in fiscal 2008 as a result of higher average cash balances and better m cash management in fiscal 2008.

Taxes

ctive income tax rates were approximately 36.1% and 31.8% for fiscal 2008 and 2007, ely.

l 2008 effective income tax rate reflects:

creased pre-tax income;

e domestic manufacturing deduction;

e research and development income tax credit expiration on December 31, 2007; and

e impact of unrecognized income tax benefits resulting from the implementation of FIN 48 fective July 1, 2007.

l 2007 effective income tax rate reflects:

ilization of the export sales deduction, which expired in December 2006;

e domestic manufacturing deduction; and

e effect of the retroactive reinstatement of the research and development tax credit gislation which was reinstated in December 2006, retroactive to January 1, 2006. The fective income tax rate includes the credit earned from January 1, 2006 through June 30, 006, which aggregated $0.01 per diluted share, in addition to the income tax credit earned uring fiscal 2007.

55

f Contents

Per Share

earnings per share increased to $1.15 for fiscal 2008 from $0.86 for fiscal 2007. The in earnings per share is attributable to increased net income in fiscal 2008 partially offset her diluted share count, primarily resulting from the issuance of common shares upon of stock options.

ITY AND CAPITAL RESOURCES

ncial market crisis disrupted credit and equity markets worldwide and led to a weakened conomic environment throughout our fiscal 2009. The affect of the weakened global and the fallout from the financial market crisis has been a challenge for our industry with ming operators delaying or canceling construction projects, coupled with many customers their annual capital budgets for calendar 2009, which had a more significant impact in the alf of our fiscal 2009.

unt of cash flow from operations we generate is largely dependent on our profitability and unt of working capital necessary to support our revenue base. Therefore, in any given period, the amount of cash consumed or generated by operations will primarily relate to of revenue and profitability increase or decrease, causing a corresponding increase or in working capital. In periods when revenues are increasing, the expanded working capital ll be funded from available cash, cash equivalents, cash flow from operations, and, if y, proceeds from our revolving credit facility, additional borrowings or additional equity . We utilize these sources to fund investments in property, plant and equipment, gaming s equipment and agreements to license or acquire third-party brands, intellectual properties ologies that we have not developed internally. Also, we will from time to time issue or rrowings or repurchase equity in an effort to maintain a cost- effective capital structure t with our anticipated capital requirements. With the ongoing uncertainty in the credit and arkets, there can be no assurance that other sources of capital will be available to us on le terms or at all. Based on past performance and current expectation, we believe the tion of these resources will satisfy our needs for working capital, jackpot liabilities, capital ures, debt service, and other liquidity requirements associated with our existing operations oreseeable future.

ary sources of liquidity are:

xisting cash and cash equivalents;

ash flows from operations; and

ebt capacity available under our revolving credit facility.

balance sheet accounts at June 30 are summarized as follows (in millions):

			Increase	
	2009	**2008**	**Dollar**	**Percent**
h, cash equivalents, and restricted cash(1)	$ 154.7	$ 119.6	$ 35.1	29.3%
rent assets(A)	450.0	413.3	36.7	8.9
ets	856.0	772.7	83.3	10.8
rent liabilities(B)	115.7	116.6	(0.9)	(0.8)
m debt	115.0	115.0		
ders equity	591.4	510.8	80.6	15.8
ing capital (A) (B)	334.3	296.7	37.6	12.7

ant to various state gaming regulations, we maintain certain restricted cash accounts to ensure bility of funds to pay wide-area progressive jackpot awards either in lump sum payments or in ments. Cash, cash equivalents, and restricted cash includes restricted cash of $19.0 million and $18.8 as of June 30, 2009 and June 30, 2008, respectively. Cash required for funding WAP systems jackpot nts is considered restricted cash and is not available for general corporate purposes.

56

f Contents

working capital increased $37.6 million from June 30, 2008, and was primarily affected by
wing components:

n increase in cash, cash equivalents and restricted cash of $35.1 million due primarily to ur increased profitability, controlled capital investing and better management of select orking capital items;

n increase in total current accounts and notes receivable, net, of $15.7 million or 7.9%, to 214.2 million compared to $198.5 million at June 30, 2008, reflecting the impact of greater oduct sales revenues in the June quarter 2009 compared to the June quarter 2008, and an ffort launched in fiscal 2009 to expand the amount of financing terms provided to ustomers given the downturn in the economy, partially offset by improved collection efforts reduce aged accounts receivable. Our days sales outstanding for current and long-term ccount and notes receivables were 119 days at June 30, 2009 compared to 109 days at ne 30, 2008;

decrease in inventories of $16.8 million or 28.0% to $43.1 from $59.9 million at June 30, 008 due to continuing efforts to increase inventory turns which were 4.2 at June 30, 2009 ompared to 3.1 at June 30, 2008;

n increase in other current assets of $2.7 million, net of lower deferred income taxes; and

$9.6 million decrease in other accrued liabilities primarily resulting from the settlement of share repurchase liability from June 2008 and lower current income taxes payable.

ibed in Note 13, Commitments, Contingencies and Indemnifications to our Consolidated l Statements, we have royalty and license fee commitments for brand, intellectual property nology licenses of $112.7 million including contingent payments that are not recorded in olidated Balance Sheets.

ve that total cash, cash equivalents and restricted cash of $154.7 million at June 30, 2009, of $19.0 million of restricted cash, and cash flow from operations will be adequate to fund ipated level of expenses, cash to be invested in property, plant and equipment and gaming ns equipment, cash to be used to license or acquire brands, technologies or intellectual s from third parties, the levels of inventories and receivables required in the operation of ness, and any repurchases of common stock for the upcoming fiscal year. We take a prudent ervative approach to maintaining our available liquidity while credit market and economic ns remain unfavorable. We continue to focus on reinvesting in our business through our l base of gaming operations machines, as well as other strategic capital deployment es to expand our geographic reach, product lines and customer base. We will cautiously ur capital in order to preserve maximum flexibility. For fiscal 2010 and fiscal 2011, we sh flow from operations to continue to be strong. We do not believe we will need to raise a nt amount of additional capital in the short-term or long-term, and we have access to our lion revolving credit facility through December 31, 2009. We intend to extend or replace ity prior to its expiration. Due to the current economic conditions and capital markets es, we can provide no guarantee that we will be able to negotiate such an agreement or that eement would not place further limitations on our operations. We will, however, assess pportunities as they arise.

154.7 million of total cash, cash equivalents and restricted cash at June 30, 2009, nately $96.6 million is invested in various money market funds. The banking institutions nsor these money market funds have elected to participate in the Temporary Guarantee for U.S. Money Market Funds sponsored by the U.S. Treasury which guarantees the nvested in these money market funds at September 19, 2008 and our balance invested at was approximately $99 million. Currently this program ends on September 18, 2009. Late the Federal Deposit Insurance Corporation approved a final rule to strengthen the agency s ry Liquidity Guarantee Program. This program guarantees newly issued senior unsecured anks, thrifts, and certain holding companies, and provides full coverage of non-interest deposit transaction accounts. Under this program, participating institutions will be able to customers full coverage on non-interest bearing accounts, which currently will be in effect end of calendar 2009. The remaining $58.1 million of cash, cash equivalents and restricted rimarily cash held at

57

f Contents

banking institutions. Approximately $9.0 million is held in cash accounts at international itutions and the remaining $49.1 million is primarily held in non-interest-bearing accounts rgan Chase and Bank of America, such that these deposits are covered by the Temporary Guarantee Program.

ble Subordinated Notes

30, 2009, we had $115 million of convertible subordinated notes outstanding, bearing at 2.75%, maturing on July 15, 2010. The notes are convertible at any time into an e of 8.7 million shares of our common stock at a conversion price of $13.19 per share, o adjustment. The notes are not callable. We pay interest on the notes semi-annually on 15 and July 15 of each year, aggregating $3.2 million annually. The conversion of the onvertible subordinated notes to common stock is dependent on individual holders choices rt, which is dependent on the spread of the market price of our stock above the conversion ce of $13.19 per share, and would reduce our annual interest expense. None of the holders verted any of their convertible subordinated notes into our common stock. Our convertible conventional convertible debt instruments in which the holder may only realize the value nversion option by exercising the option and receiving a fixed number of shares of our stock.

g Credit Facility

a revolving credit agreement, as amended, that provides for $100 million of unsecured ngs through December 31, 2009, including the potential to expand the line up to $125 Up to $10 million of the credit facility is available for the issuance of letters of credit. The reement requires that we maintain certain financial ratios, which could limit our ability to companies, declare dividends or make any distribution to holders of any shares of capital r purchase or otherwise acquire such shares of our common stock. At June 30, 2009, nately $114.2 million was available for such purposes under the most restrictive of these s. No amounts were outstanding under the revolving credit facility as of June 30, 2009 and 2008. In October 2008, due to the volatility and lack of liquidity in the capital markets, we d $25 million on our revolving credit facility and invested the proceeds in treasury bills day maturities. We repaid the $25 million by December 31, 2008. In January 2009, due to nued volatility and lack of liquidity in the capital markets, we borrowed $25 million on our g credit facility and invested the proceeds in treasury bills with 30 day maturities. We e $25 million by March 31, 2009 and did not borrow any amounts under our revolving cility in the June 2009 quarter. We intend to extend or replace our revolving credit facility expires, although we can provide no guarantee that we will be able to effect our intensions.

ncial covenants under the credit facility consist of a leverage ratio and an interest coverage e maximum leverage ratio is currently 3.25x and is computed as total debt outstanding at f each quarter divided by the trailing twelve months earnings before interest, income taxes, tion and amortization, including non-cash charges. The minimum interest coverage ratio is 2.5x and is computed as trailing twelve months earnings before interest and income taxes by trailing twelve months interest charges.

Stock Repurchase Program

st 3, 2009, our Board of Directors authorized the repurchase of an additional $75 million mmon stock over the following twenty-four months increasing our remaining repurchase ation to approximately $150 million. See Other Key Fiscal 2009 Activities in Item 7 nent s Discussion and Analysis of Financial Condition and Results of Operation.

f Contents

ows Summary

ws from operating, investing and financing activities, as reflected in our Consolidated ts of Cash Flows, are summarized in the following table (in millions):

	Year Ended June 30,			2009 to 2008	2008 to 2007
	2009	2008	2007	Change	Change
provided by (used in):					
g activities	$ 179.2	$ 186.2	$ 118.9	$ (7.0)	$ 67.3
activities	(113.8)	(117.8)	(158.8)	4.0	41.0
g activities	(29.8)	(5.2)	35.6	(24.6)	(40.8)
exchange rates on cash and valents	(0.7)	0.4	2.4	(1.1)	(2.0)
ase (decrease) in cash and valents	$ 34.9	$ 63.6	$ (1.9)	$ (28.7)	$ 65.5

g activities: The $7.0 million decrease in cash provided by operating activities in the fiscal r compared to the fiscal 2008 year resulted from:

positive impact from the $24.7 million increase in net income, partially offset by a $3.5 illion decrease in depreciation and a $5.5 million decrease in amortization;

positive impact from other non-cash items of $22.5 million, including a $6.1 million crease in non-cash items, a $2.8 million increase in share-based compensation, and a $13.6 illion change in deferred income taxes, more than offset by;

$45.2 million negative impact from changes in operating assets and liabilities. This crease is comprised of a $19.1 million incremental increase in total accounts and notes ceivable activity as we granted a greater a number of longer-term financing options for lect customers and more of our quarterly shipments for the June 2009 quarter took place in e month of June than had occurred in June 2008, an $18.3 million greater decrease in rrent liabilities activity partially offset by a $7.0 million greater decrease in inventory tivity.

3 million increase in cash provided by operating activities in the fiscal 2008 year compared cal 2007 year resulted from:

positive impact from the $18.6 million increase in net income and a $9.0 million increase depreciation;

positive impact from a $16.2 million increase in non-cash items, including share-based ompensation, amortization of intangibles and other assets and other non-cash items; and

positive impact from improved utilization of working capital indicated by a $29.9 million et decrease in changes in operating assets and liabilities, as the fiscal 2008 period decrease inventories and increase in current liabilities was only partially offset by an increase in ccounts and notes receivable and other current assets.

g Activities: The $4.0 million decrease in cash used by investing activities for the year ne 30, 2009 compared to the prior year was primarily due to:

$3.4 million decrease in the amount invested in gaming operations machines, top boxes nd related equipment during the year ended June 2009 to $47.0 million despite the 11% crease in the participation installed base due to better management of these assets. We xpect that capital expenditures for gaming operations equipment will decrease slightly in scal 2010 and 2011;

$6.0 million reduction in payments to acquire or license intangible and other assets to 13.5 million in the year ended June 2009 as we identified fewer items to license or acquire, artially offset by;

59

f Contents

$5.0 million increase in the amount invested in property, plant and equipment during the ear ended June 2009 to $53.3 million, as we continue to invest in future expansion, higher pending on information technology, as well as investments in manufacturing tools and ternally developed and purchased software. We expect that capital expenditures for roperty, plant and equipment will increase modestly in fiscal 2010 and 2011.

0 million decrease in cash used by investing activities in fiscal 2008 compared to the fiscal r was primarily due to:

ower cash used in purchasing businesses by $20.7 million as only $0.2 million of cash was sed for the acquisition of SiP in the fiscal 2008 period compared to net cash of $20.9 illion used for the acquisition of Orion Gaming during fiscal 2007;

$25.5 million decrease in the amount invested in gaming operations machines, top boxes nd related equipment during the fiscal 2008 period to $50.4 million;

n $8.4 million reduction in payments to acquire or license intangible and other assets to 19.5 million in the fiscal 2008 period as we entered into fewer new agreements, partially ffset by;

$14.2 million increase in the amount invested in property, plant and equipment during the scal 2008 period to $48.3 million, due primarily to the acquisition of land and buildings ear our Chicago technology campus to provide for future expansion, higher spending on formation technology, renovation of our Waukegan, Illinois facility, as well as investments manufacturing tools and internally developed and purchased software.

g Activities: The $24.6 million increase in cash used by financing activities for the year ne 2009 compared to the prior year was primarily due to:

n incremental $5.5 million used to repurchase treasury stock in the 2009 period as we paid 40.5 million for the year ended June 2009 to repurchase common stock compared to $35.0 illion in the prior year; and

$19.1 million reduction in cash received and tax benefits realized from exercised stock ptions. The amount we receive from the exercise of stock options is dependent on dividuals choices to exercise options, which are dependent on the spread of the market ice of our stock above the exercise price of vested options.

8 million decrease in cash provided by financing activities in fiscal 2008 compared to 07 was primarily due to:

he use of $35 million in fiscal 2008 to repurchase common stock compared to none in scal 2007; and

$5.8 million reduction in the cash received and tax benefits from the exercised stock
otions.

LANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

not dependent on off-balance sheet financing arrangements to fund our operations. We nancing arrangements for operating leases of equipment and facilities, none of which are in f our current needs. We also have minimum guaranteed royalty payments for intellectual and technologies that are not recorded on our Consolidated Balance Sheets. Typically, we ated to make minimum commitment royalty payments over the term of our licenses and to payment against those commitments.

60

f Contents

gations under these arrangements, under our convertible subordinated notes and other al obligations at June 30, 2009, were as follows (in millions):

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
g leases	$ 24.2	$ 4.6	$ 7.8	$ 7.1	$ 4.7
and license fee payments	112.7	14.6	29.6	32.3	36.2
celable raw material purchase orders	18.5	18.5			
WAP jackpot liability	9.6	9.6			
ble subordinated notes	115.0		115.0		
payments	4.7	3.2	1.5		
nce bonds	1.0	1.0			
cluding guaranteed minimums in ent agreements	26.2	16.6	6.5	1.2	1.9
	$ 311.9	$ 68.1	$ 160.4	$ 40.6	$ 42.8

l potential royalty and license fee commitments increased to $112.7 million at June 30, m $21.0 million at June 30, 2008, due to new agreements we entered into for brand and gy licenses, partially offset by advances and payments made on existing commitments. royalty and license fee commitments could increase in the future as we enter into new ual property, technology or brand licensing agreements. See Note 13, Commitments, ncies and Indemnifications to our Consolidated Financial Statements.

celable raw material purchase orders increased to $18.5 million as of June 30, 2009 from ion as of June 30, 2008, due to our commitment to a last time buy on a particular computer l in a large portion of our current gaming machines.

performance bonds outstanding of $1.0 million at June 30, 2009, to one customer, related ct sales, and we are liable to the issuer in the event of exercise due to our non-performance e contract. Events of non-performance do not include the financial performance of our

ne 30, 2009, we had a liability for unrecognized income tax benefits of $7.0 million. We ake a reasonable estimate of the period of cash settlement for the liability for unrecognized ax benefits. See Note 9, Income Taxes to our Consolidated Financial Statements.

f Credit

ing letters of credit issued under our line of credit to ensure payment to certain vendors and ent agencies totaled $0.9 million at June 30, 2009.

censor Arrangements

s agreements that include software and intellectual property licensing arrangements provide whereby WMS indemnifies the third-party licensee against liability and damages g legal defense costs) arising from any claims of patent, copyright, trademark, or trade fringement. Should such a claim occur, we could be required to make payments to the for any liabilities or damages occurred. Historically, we have not incurred any significant to the infringement claims. As we consider the likelihood of incurring future costs to be no liability has been incurred.

fications

s agreements in which we may be obligated to indemnify other parties with respect to matters. Generally, these indemnification provisions are included in sales orders and nts arising in the

f Contents

ourse of business under which we customarily agree to hold the indemnified party harmless laims arising from a breach of representations related to matters such as title to assets sold sed, defective equipment or certain intellectual property rights. Payments by us under such fication provisions are generally conditioned on the other party making a claim. Such e typically subject to challenge by us and to dispute resolution procedures specified in the r sales order or contract. Further, our obligations under these agreements may be limited in time and/or amount and, in some instances, we may have recourse against third parties. It ossible to predict the maximum potential amount of future payments under these fication agreements due to the conditional nature of the obligations and the unique facts of ticular agreement. Historically, we have not made any payments under these agreements been material individually or in the aggregate. As of June 30, 2009, we were not aware of gations arising under indemnification agreements that would require material payments r the matter disclosed in Note 14, Litigation, to our Consolidated Financial Statements.

agreements with our directors and certain officers that require us, among other things, to fy them against certain liabilities that may arise by reason of their status or service as or officers. We have also agreed to indemnify certain former officers and directors of companies. We maintain director and officer insurance, which may cover our liabilities rom these indemnification obligations in certain circumstances. As of June 30, 2009, we aware of any obligations arising under these agreements that would require material s.

Purpose Entities and Derivative Instruments

ot have any special purpose entities for investment or the conduct of our operations. We entered into any derivative financial instruments, although we have granted stock options, l stock, equity based performance units and deferred stock units to our employees, officers, and consultants and warrants to a licensor, and we have issued convertible subordinated

urance

elf-insured for various levels of workers compensation, electronic errors and omissions automobile collision insurance, as well as employee medical, dental, prescription drug and y coverage. We purchase stop-loss coverage to protect against significant claims. Accrued e claims and reserves include estimated settlements for known claims, and estimates of curred but not reported.

Warranty

rally warrant our new gaming machines sold in the U.S. for a period of 90 days while we y warrant our gaming machines sold internationally for a period of 180 days to one year.

anty costs have not been significant.

A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

ubject to market risks in the ordinary course of our business, primarily associated with ate and foreign currency fluctuations. We do not currently hedge either of these risks, or nancial instruments for trading or other speculative purposes.

Rate Risk

exposure to interest rate risk from our convertible subordinated notes and revolving credit The notes are at a fixed rate and the revolving credit facility is at a variable rate.

ne 30, 2009, we had $115.0 million of convertible fixed-rate debt with an interest rate of nd a fair value of $274.8 million. Using a discounted cash flow model, and assuming no n the market price of our common stock into which the debt is convertible, we currently that a 50 basis point change in the

62

f Contents

g market interest rates would impact the fair value of our fixed rate debt by approximately ion, but would not impact our cash flows or future results of operations. However, the fair our convertible fixed rate debt is more significantly dependent on the market price of our stock into which it can be converted.

a revolving credit agreement that provides for $100 million of unsecured borrowing December 31, 2009, including the potential to expand the line up to $125 million. ngs under this facility bear interest at a certain percentage above the agent s prime rate, or e LIBOR rate. There were no outstanding borrowings under this facility as of June 30,

Currency Risk

ubstantially all of our products in U.S. Dollars to protect ourselves from foreign currency do have subsidiaries or branches in Alderney, Argentina, Australia, Austria, Canada, e Netherlands, Slovakia, Spain, South Africa, and the United Kingdom for distribution and ment operations. These subsidiaries transact business in their respective foreign currencies xposed to risks resulting from fluctuations in foreign currency exchange rates. We estimate pothetical 10% strengthening (or weakening) of the U.S. dollar for fiscal 2009 would have terial impact on our business.

assets of these subsidiaries are exposed to foreign currency translation gains and losses, e included as a component of accumulated other comprehensive income in stockholders our Consolidated Balance Sheets. Such translation resulted in unrealized loss of $4.8 nd an unrealized gain of $6.8 million for fiscal 2009 and 2008, respectively.

on, foreign governments could impose restrictions on currency movements that might make or impossible to repatriate earnings to the U.S.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

solidated Financial Statements are included in this Report immediately following Part IV.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON NTING AND FINANCIAL DISCLOSURE

A. CONTROLS AND PROCEDURES

on Regarding the Effectiveness of Disclosure Controls and Procedures

e supervision and the participation of our management, including our principal executive nd principal financial officer, we conducted an evaluation as of June 30, 2009 of the ness of the design and operation of our disclosure controls and procedures, as such term is under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended change Act). Based on this evaluation, our principal executive officer and our principal officer concluded that our disclosure controls and procedures were effective as of June 30,

ment s Report on Internal Control Over Financial Reporting

agement is responsible for establishing and maintaining adequate internal control over reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control ncial reporting is designed to provide reasonable assurance regarding the preparation and entation of published financial statements. Because of its inherent limitations, internal ver financial reporting may not prevent or detect

63

f Contents

ments. Therefore, even those systems determined to be effective can provide only le assurance with respect to financial statement preparation and presentation. Under the on and with the participation of our management, including our principal executive officer cipal financial officer, we conducted an evaluation of the effectiveness of our internal ver financial reporting based on the framework in *Internal Control Integrated Framework*, the Committee of Sponsoring Organizations of the Treadway Commission. Based on our on under the framework in *Internal Control Integrated Framework*, our management d that our internal control over financial reporting was effective as of June 30, 2009.

ctiveness of our internal control over financial reporting as of June 30, 2009 has been y Ernst & Young LLP, an independent registered public accounting firm, as stated in their cluded herein.

B. OTHER INFORMATION

icable.

64

f Contents

PART III

0. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

rmation required by this item is incorporated by reference from our definitive proxy t to be filed on or about October 27, 2009 with the SEC.

1. EXECUTIVE COMPENSATION

rmation required by this item is incorporated by reference from our definitive proxy t to be filed on or about October 27, 2009 with the SEC.

2. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND GEMENT AND RELATED STOCKHOLDER MATTERS

rmation required by this item is incorporated by reference from our definitive proxy t to be filed on or about October 27, 2009 with the SEC.

3. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND TOR INDEPENDENCE

rmation required by this item is incorporated by reference from our definitive proxy t to be filed on or about October 27, 2009 with the SEC.

4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

rmation required by this item is incorporated by reference from our definitive proxy t to be filed on or about October 27, 2009 with the SEC.

f Contents

PART IV

5. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1) *Financial Statements.* See Index to Financial Information on page F-1.

2) *Financial Statement Schedule.* See Index to Financial Information on page F-1.

3) *Exhibits.*

Description

Amended and Restated Certificate of Incorporation of WMS dated February 17, 1987; Certificate of Amendment dated January 28, 1993; and Certificate of Correction dated May 4, 1994, incorporated by reference to WMS Annual Report on Form 10-K for the year ended June 30, 1994 (the 1994 10-K).

Certificate of Amendment to the Amended and Restated Certificate of Incorporation of WMS, as filed with the Secretary of State of the State of Delaware on February 25, 1998, incorporated by reference to WMS Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.

Amended and Restated By-Laws of WMS, as amended and restated through May 7, 2007, incorporated by reference to WMS Current Report on Form 8-K, filed on May 10, 2007.

Voting Proxy Agreement dated, November 8, 2003, among Louis J. Nicastro, Neil D. Nicastro, WMS and Phyllis G. Redstone, incorporated by reference to WMS Current Report on Form 8-K, filed on November 12, 2002.

Amendment to Voting Proxy Agreement, effective as of October 18, 2006, by and between Phyllis G. Redstone, Neil D. Nicastro, Brian R. Gamache and WMS Industries, Inc., incorporated by reference to our Current Report on Form 8-K, filed on October 20, 2006.

License Agreement Summary and License Agreement (the License Agreement) between WMS Gaming Inc., Hasbro, Inc. and Hasbro International, Inc. dated as of April 1, 2009. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

Warrant to purchase common stock of the Registrant dated June 11, 2009, between WMS and Hasbro Inc., incorporated by reference to WMS s Current Report on Form 8-K, filed on June 17, 2009 (the June 2009 8-K).

Warrant modification agreement, dated as of June 11, 2009 between WMS Gaming Inc. and Hasbro Inc., incorporated by reference to the June 2009 8-K.

Warrant to purchase common stock of the Registrant, dated September 15, 2003, issued to Hasbro, Inc., incorporated by reference to WMS s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Game Manufacturer Cashless License Agreement, dated as of October 1, 2006, between IGT and WMS Gaming, Inc., incorporated by reference to WMS Current Report on Form 8-K, filed on October 3, 2006. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

IGT/WMS Patent Cross License Agreement, between WMS Gaming Inc. and IGT, dated as February 14, 2008, incorporated by reference to WMS Current Report on Form 8-K, filed on February 21, 2008. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

License and Development Agreement between WMS Gaming Inc. and Sierra Design Group (SDG), dated as of April 24, 2002, incorporated by reference to WMS Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 (the 2003 2Q 10-Q). Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

66

f Contents

Description

First Amendment to License and Development Agreement between WMS Gaming Inc. and SDG, dated June 12, 2003, incorporated by reference to the 2003 2Q 10-Q. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

Second Amendment to License and Development Agreement between WMS Gaming Inc. and SDG, dated July 15, 2003, incorporated by reference to the 2003 2Q 10-Q.

Third Amendment to License and Development Agreement between WMS Gaming Inc. and SDG, dated November 7, 2003, incorporated by reference to the 2003 2Q 10-Q. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

Letter Amendment to License and Development Agreement between WMS Gaming Inc. and SDG, dated February 3, 2004, incorporated by reference to Form 10-K for the year ended June 30, 2004. Portions of this exhibit have been omitted under a request for confidential treatment filed separately with the Commission.

Indenture, dated June 25, 2003, between WMS and BNY Midwest Trust Company (the Indenture), incorporated by reference to WMS Current Report on Form 8-K, filed on June 25, 2003 (the 2003 8-K).

Form of Note contained in and incorporated by reference to Exhibit A to the Indenture incorporated by reference to the 2003 8-K.

Registration Rights Agreement, dated June 25, 2003, between WMS and BNY Midwest Trust Company, incorporated by reference to the 2003 8-K.

$100 million Credit Agreement, dated May 1, 2006, between WMS and JPMorgan Chase Bank, N.A., as Administrator Agent, JP Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, LaSalle National Association, as Syndication Agent, and Bank of America, N.A. as Documentation Agent, incorporated by reference to WMS Current Report on Form 8-K, filed on May 5, 2006.

Amendment No. 1 to Credit Agreement, dated as of June 29, 2007, between WMS and JPMorgan Chase Bank, N.A., as Administrative Agent, JP Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, LaSalle Bank National Association, as Syndication Agent and Bank of America, N.A., as Documentation Agent, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2007.

Amendment No. 2 to Credit Agreement, dated as of June 30, 2008, between WMS and JPMorgan Chase Bank, N.A., as Administrative Agent, JP Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, LaSalle Bank National Association, as Syndication Agent and Bank of America, N.A., as Documentation Agent, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Amendment No. 3 to Credit Agreement, dated as of September 19, 2008, between WMS and JPMorgan Chase Bank, N.A., as Administrative Agent, JP Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, LaSalle Bank National Association, as Syndication Agent and Bank of America, N.A., as Documentation Agent, incorporated by reference to WMS Current Report on Form 8-K, filed on September 24, 2008.

Amendment No. 4 to Credit Agreement, dated June 11, 2009, between WMS and JPMorgan Chase Bank, N.A., as Administrator Agent, JP Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, LaSalle National Association, as Syndication Agent, and Bank of America, N.A. as Documentation Agent, incorporated by reference to the June 2009 8-K.

f Contents

Description

Management Contracts and Compensatory Plans or Arrangements

WMS Industries Inc. 1998 Non-Qualified Stock Option Plan, incorporated by reference to WMS Registration Statement No. 333-57585 on Form S-8, filed on June 24, 1998.

WMS Industries Inc. 2000 Non-Qualified Stock Option Plan, incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

WMS Industries Inc. 2000 Stock Option Plan, incorporated by reference to Appendix B to WMS Proxy Statement for its 2001 Annual Meeting of Stockholders, filed on December 8, 2000.

WMS Industries Inc. 2002 Stock Option Plan, incorporated by reference to Appendix B to WMS' Proxy Statement for its 2002 Annual Meeting of Stockholders, filed on September 25, 2002.

Amended and Restated 2005 Incentive Plan, as adopted by our stockholders on December 15, 2006, incorporated by reference to Appendix A to our Proxy Statement, filed on October 26, 2006.

WMS Industries Inc. Amended and Restated 2009 Employee Stock Purchase Plan, incorporated by reference to WMS s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

Form of Stock Option Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan, incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended

June 30, 2005.

Form of Restricted Stock Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

Form of Equity-Based Performance Award Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

Form of Deferred Stock Unit Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Form of Restricted Stock Unit Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Form of Performance-based Restricted Unit Agreement under the WMS Industries Amended and Restated 2005 Incentive Plan incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

WMS Industries Inc. Nonqualified Deferred Compensation Plan, amended and restated effective January 1, 2009, incorporated by reference to WMS Current Report on Form 8-K, filed on February 24, 2009.

Letter of Termination of Employment Agreement between Louis J. Nicastro and WMS, dated June 14, 2001, incorporated by reference to WMS Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (the 2001 10-K).

Form of Officer and Director Indemnity Agreement, incorporated by reference to WMS Current Report on Form 8-K, filed on December 15, 2004.

Advisory Agreement between Louis J. Nicastro and WMS Industries Inc., dated May 5, 2008, incorporated by reference to WMS Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

f Contents

Description

Employment Agreement between Brian R. Gamache and WMS, dated December 27, 2004, incorporated by reference to WMS Current Report on Form 8-K, filed on December 30, 2004.

Letter Agreement, dated as of August 9, 2005, between WMS and Brian R. Gamache incorporated by reference to WMS Current Report on Form 8-K, filed on August 15, 2005.

Amendment to Executive Employment Agreement, dated July 1, 2008, between WMS and Brian R. Gamache, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Employment Agreement between Orrin J. Edidin and WMS, dated February 18, 2005, incorporated by reference to WMS Current Report on Form 8-K, filed on February 24, 2005.

Letter Agreement, dated as of August 9, 2005, between WMS and Orrin J. Edidin incorporated by reference to WMS Current Report on Form 8-K, filed on August 15, 2005.

Amendment to Executive Employment Agreement, dated July 1, 2008, between WMS and Orrin J. Edidin, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Employment Agreement between Scott D. Schweinfurth and WMS dated February 18, 2005, incorporated by reference to WMS Current Report on Form 8-K, filed on February 24, 2005.

Letter Agreement, dated as of August 9, 2005, between WMS and Scott D. Schweinfurth incorporated by reference to WMS Current Report on Form 8-K, filed on August 15, 2005.

Amendment to Executive Employment Agreement, dated July 1, 2008, between WMS and Scott D. Schweinfurth, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Employment offer letter, dated November 22, 2002, to Kathleen J. McJohn, Vice President, General Counsel and Secretary, incorporated by reference to WMS Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Employment Agreement, dated September 7, 2005, between WMS and Larry J. Pacey, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Amendment to Executive Employment Agreement, dated July 1, 2008, between WMS and Larry J. Pacey, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Deferred Compensation Agreement, dated January 27, 2007, between WMS and Larry J. Pacey, incorporated by reference to WMS Current Report on Form 8-K, filed on July 3, 2008.

Description of Executive Compensation Salary increases, incorporated by reference to WMS Current Report on Form 8-K filed on July 3, 2008.

Other

Subsidiaries of the Registrant.

Consent of Ernst & Young LLP.

Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 13(a)-14(a) of the Securities Exchange Act of 1934 (Section 302 of the Sarbanes-Oxley Act of 2002).

Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

69

f Contents

WMS INDUSTRIES INC.

INDEX TO FINANCIAL INFORMATION

schedules are omitted since the required information is not present in amounts sufficient to submission of the schedule or because the information required is included in the ated Financial Statements and Notes thereto.

f Contents

EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

rd of Directors and Stockholders of

dustries Inc.

audited the accompanying consolidated balance sheets of WMS Industries Inc. (the ny) as of June 30, 2009 and 2008, and the related consolidated statements of income, ders' equity and comprehensive income, and cash flows for each of the three years in the nded June 30, 2009. Our audits also included the financial statement schedule listed in the Item 15(a). These financial statements and schedule are the responsibility of the Company's nent. Our responsibility is to express an opinion on these financial statements and schedule our audits.

ducted our audits in accordance with the standards of the Public Company Accounting nt Board (United States). Those standards require that we plan and perform the audit to easonable assurance about whether the financial statements are free of material ment. An audit includes examining, on a test basis, evidence supporting the amounts and es in the financial statements. An audit also includes assessing the accounting principles significant estimates made by management, as well as evaluating the overall financial t presentation. We believe that our audits provide a reasonable basis for our opinion.

inion, the consolidated financial statements referred to above present fairly, in all material the consolidated financial position of WMS Industries Inc. at June 30, 2009 and 2008, and olidated results of its operations and its cash flows for each of the three years in the period ne 30, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our the related financial statement schedule, when considered in relation to the basic financial ts taken as a whole, presents fairly in all material respects the information set forth therein.

ussed in Note 2 to the consolidated financial statements, effective July 1, 2007, the y adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *ting for Uncertainty in Income Taxes.*

have audited, in accordance with the standards of the Public Company Accounting nt Board (United States), WMS Industries Inc. s internal control over financial reporting as 0, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by mittee of Sponsoring Organizations of the Treadway Commission and our report dated 7, 2009 expressed an unqualified opinion thereon.

& Young LLP

Illinois

7, 2009

f Contents

EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

rd of Directors and Stockholders of

dustries Inc.

audited WMS Industries Inc. s internal control over financial reporting as of June 30, 2009, criteria established in Internal Control Integrated Framework issued by the Committee of ng Organizations of the Treadway Commission (the COSO criteria). WMS Industries Inc. s nent is responsible for maintaining effective internal control over financial reporting, and sessment of the effectiveness of internal control over financial reporting included in the anying *Management s Report on Internal Control over Financial Reporting*. Our bility is to express an opinion on the company s internal control over financial reporting our audit.

ducted our audit in accordance with the standards of the Public Company Accounting t Board (United States). Those standards require that we plan and perform the audit to asonable assurance about whether effective internal control over financial reporting was ed in all material respects. Our audit included obtaining an understanding of internal over financial reporting, assessing the risk that a material weakness exists, testing and g the design and operating effectiveness of internal control based on the assessed risk, and ng such other procedures as we considered necessary in the circumstances. We believe that provides a reasonable basis for our opinion.

ny s internal control over financial reporting is a process designed to provide reasonable e regarding the reliability of financial reporting and the preparation of financial statements nal purposes in accordance with generally accepted accounting principles. A company s control over financial reporting includes those policies and procedures that (1) pertain to the nce of records that, in reasonable detail, accurately and fairly reflect the transactions and ons of the assets of the company; (2) provide reasonable assurance that transactions are as necessary to permit preparation of financial statements in accordance with generally accounting principles, and that receipts and expenditures of the company are being made accordance with authorizations of management and directors of the company; and ide reasonable assurance regarding prevention or timely detection of unauthorized on, use or disposition of the company s assets that could have a material effect on the statements.

of its inherent limitations, internal control over financial reporting may not prevent or isstatements. Also, projections of any evaluation of effectiveness to future periods are o the risk that controls may become inadequate because of changes in conditions, or that e of compliance with the policies or procedures may deteriorate.

pinion, WMS Industries Inc. maintained, in all material respects, effective internal control ncial reporting as of June 30, 2009, based on the COSO criteria.

have audited, in accordance with the standards of the Public Company Accounting nt Board (United States), the consolidated balance sheets of WMS Industries Inc. as of 2009 and 2008, and the related consolidated statements of income, stockholders equity and ensive income, and cash flows for each of the three years in the period ended June 30, 2009 Industries Inc. and our report dated August 27, 2009 expressed an unqualified opinion

& Young LLP

Illinois

7, 2009

F-3

f Contents

WMS INDUSTRIES INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2009 and 2008

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

	2009	2008
ASSETS		
NT ASSETS:		
cash equivalents	$ 135.7	$ 100.8
d cash and cash equivalents	19.0	18.8
sh, cash equivalents and restricted cash	154.7	119.6
and notes receivable, net	214.2	198.5
es	43.1	59.9
rrent assets	38.0	35.3
rrent assets	450.0	413.3
URRENT ASSETS:		
operations equipment, net	68.0	75.4
plant and equipment, net	158.8	125.7
e assets, net	99.3	106.3
income tax assets	31.2	34.9
sets, net	48.7	17.1
n-current assets	406.0	359.4
ASSETS	$ 856.0	$ 772.7
LIABILITIES AND STOCKHOLDERS EQUITY		
NT LIABILITIES:		
payable	$ 50.4	$ 47.0
compensation and related benefits	27.9	22.6
crued liabilities	37.4	47.0
rrent liabilities	115.7	116.6
URRENT LIABILITIES:		
income tax liabilities	17.8	16.2
m debt	115.0	115.0
n-current liabilities	16.1	14.1
n-current liabilities	148.9	145.3
ments, contingencies and indemnifications (see Note 13)		
HOLDERS EQUITY:		
stock (5.0 shares authorized, none issued)		
stock (100.0 shares authorized, 51.0 shares issued)	25.5	25.5
al paid-in capital	311.9	298.1
stock, at cost (1.8 and 0.8 shares, respectively)	(45.4)	(24.8)
earnings	296.1	203.9

ated other comprehensive income	3.3	8.1
ckholders equity	591.4	510.8
LIABILITIES AND STOCKHOLDERS EQUITY	$ 856.0	$ 772.7

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

f Contents

WMS INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended June 30, 2009, 2008 and 2007

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

	2009	2008	2007
UES:			
sales	$ 438.5	$ 421.2	$ 366.3
operations	267.9	228.9	173.5
venues	706.4	650.1	539.8
AND EXPENSES:			
roduct sales(1)	212.8	217.3	198.6
aming operations(1)	44.7	46.6	36.2
and development	98.4	79.9	58.1
nd administrative	145.5	130.0	109.8
tion(1)	68.4	71.9	62.9
sts and expenses	569.8	545.7	465.6
TING INCOME	136.6	104.4	74.2
xpense	(4.0)	(4.0)	(5.1)
nd other income, net	7.8	5.2	2.6
efore income taxes	140.4	105.6	71.7
for income taxes	48.2	38.1	22.8
COME	$ 92.2	$ 67.5	$ 48.9
s per share:			
	$ 1.87	$ 1.34	$ 1.01
	$ 1.59	$ 1.15	$ 0.86
d-average common shares:			
mmon stock outstanding	49.2	50.2	48.4
ommon stock and common stock equivalents	59.1	60.6	59.6

st of product sales and cost of gaming operations exclude the following amounts of ion, which are included separately in the depreciation line item:

roduct sales	$ 4.1	$ 3.7	$ 2.4
aming operations	$ 51.9	$ 59.5	$ 53.3

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

F-5

f Contents

WMS INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

For the Years Ended June 30, 2009, 2008 and 2007

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

Common Shares Held in Treasury		Common stock	Additional paid-in capital	Treasury stock, at cost	Retained Earnings	Accumulated other comprehensive income	Total stockholders equity
(1.2)	**Balance, June 30, 2006**	$ 16.2	$ 227.2	$ (15.5)	$ 97.6	$ 0.1	$ 325.6
	Comprehensive income:						
	Net income				48.9		48.9
	Foreign currency translation adjustment					3.2	3.2
	Comprehensive income						52.1
0.8	Vesting of restricted stock and exercise of stock options and related tax benefits	0.5	26.4	8.7			35.6
	Forfeiture of restricted shares		0.3				0.3
0.4	Stock issued for business acquisition		2.8	6.8			9.6
	Effect from adoption of SFAS No. 158, net of tax					(2.0)	(2.0)
	Share-based payment expense		12.4				12.4
	Impact of three-for-two stock split	8.3			(8.3)		
	Balance, June 30, 2007	25.0	269.1		138.2	1.3	433.6
	Comprehensive income:						
	Net income				67.5		67.5
	Foreign currency translation adjustment					6.8	6.8
	Comprehensive income						74.3
0.4	Vesting of restricted stock and exercise of stock options and related tax benefits	0.5	13.7	15.2			29.4
(1.2)	Purchase of treasury shares			(40.0)			(40.0)
	Stock issued for business acquisition		0.1				0.1
	Effect from adoption of FIN 48				(1.8)		(1.8)
			15.2				15.2

	Share-based payment expense						
(0.8)	**Balance, June 30, 2008**	25.5	298.1	(24.8)	203.9	8.1	510.8
	Comprehensive income:						
	Net income				92.2		92.2
	Foreign currency translation adjustment					(4.8)	(4.8)
	Comprehensive income						87.4
0.6	Vesting of restricted stock and exercise of stock options and related tax benefits		(6.0)	14.9			8.9
(1.6)	Purchase of treasury shares			(35.5)			(35.5)
	Hasbro warrant modification		1.8				1.8
	Share-based payment expense		18.0				18.0
(1.8)	**Balance, June 30, 2009**	$ 25.5	$ 311.9	$ (45.4)	$ 296.1	$ 3.3	$ 591.4

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

f Contents

WMS INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2009, 2008 and 2007

(in millions of U.S. dollars)

	2009	2008	2007
LOWS FROM OPERATING ACTIVITIES			
me	$ 92.2	$ 67.5	$ 48.9
ents to reconcile net income to net cash provided by operating activities:			
tion	68.4	71.9	62.9
ation of intangible and other assets	18.7	24.2	16.9
sed compensation	18.0	15.2	12.4
n-cash items, primarily inventory reserves and bad ense	20.4	14.3	8.2
income taxes	6.6	(7.0)	(0.6)
n operating assets and liabilities, net of business ons:			
d cash	(0.2)	(2.8)	(2.4)
s and notes receivable	(53.5)	(34.4)	(26.5)
es	4.8	11.8	
rrent and long-term assets and long-term liabilities	0.7	4.1	(11.6)
iabilities	3.1	21.4	10.7
provided by operating activities	179.2	186.2	118.9
LOWS FROM INVESTING ACTIVITIES			
s to gaming operations equipment	(47.0)	(50.4)	(75.9)
of property, plant and equipment	(53.3)	(48.3)	(34.1)
s to acquire or license intangible and other assets	(13.5)	(19.5)	(27.9)
of business, net of cash acquired		(0.2)	(20.9)
		0.6	
used in investing activities	(113.8)	(117.8)	(158.8)
LOWS FROM FINANCING ACTIVITIES			
of treasury stock	(40.5)	(35.0)	
from borrowings under revolving credit facility	50.0		15.0
ents of borrowings under revolving credit facility	(50.0)		(15.0)
eived from exercise of stock options	7.9	21.0	26.7
fits from exercise of stock options	2.8	8.8	8.9
(used in) provided by financing activities	(29.8)	(5.2)	35.6
Exchange Rates on Cash and Cash Equivalents	(0.7)	0.4	2.4
ASE (DECREASE) IN CASH AND CASH ALENTS	34.9	63.6	(1.9)
ND CASH EQUIVALENTS, beginning of year	100.8	37.2	39.1

ND CASH EQUIVALENTS, end of year	$ 135.7	$ 100.8	$ 37.2

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

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NESS OVERVIEW

engaged in one business segment: the design, manufacture and distribution of gaming s (video and mechanical reel type) and video lottery terminals (VLTs) for customers in gaming jurisdictions worldwide. We have production facilities in the United States with ment and distribution offices located in the United States, Argentina, Australia, Austria, China, Italy, the Netherlands, South Africa, Spain, and the United Kingdom. In fiscal year integrated the manufacturing of Orion Gaming products into our Spain and United States

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

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

CIPAL ACCOUNTING POLICIES

Presentation and Consolidation Policy

solidated Financial Statements have been prepared in accordance with U.S. generally accounting principles and, pursuant to the rules and regulations of the Securities and ge Commission, include all adjustments necessary to fairly present our consolidated position, results of operations, and cash flows for each period presented. Our Consolidated al Statements include the accounts of WMS Industries Inc. and its wholly owned ies (WMS or the Company). All significant intercompany accounts and transactions have ninated. These financial statements include subsequent events evaluated through the date of cial statement issuance on August 27, 2009.

ifications

amounts within net cash provided by operating activities included in the prior years ated Statements of Cash Flows have been reclassified to conform with the current year s ion. These reclassifications are immaterial and did not affect the reported amounts of total provided by operating activities included in our Consolidated Statements of Cash Flows.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Recognition

uate the recognition of revenue based on the criteria set forth in the following accounting cements; Statement of Position (SOP) 97-2, *Software Revenue Recognition* , as amended 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain ions* , Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial ts,* as revised by SAB No. 104, *Revenue Recognition* and Emerging Issues Task Force) Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* . Our recognition policy for both product sales and gaming operations is to record revenue when llowing criteria are met:

ersuasive evidence of an agreement exists;

he price to the customer is fixed or determinable;

elivery has occurred, title has been transferred, and any acceptance terms have been lfilled

o significant contractual obligations remain; and

ollectibility is reasonably assured.

Sales

gaming machines and VLTs typically with payment terms of 30 to 90 days. In certain ances we offer extended payment terms typically for up to one year but in limited cases up years, which obligation may be secured by the related equipment and may accrue interest ed at market rates. In fiscal 2009, due to the slowing economy and credit availability es our customers experienced, we implemented a program to increase the amount of terms offered to select customers. We expect to continue this program in fiscal 2010 until omy and availability of credit improves. Revenues are reported net of incentive rebates or s. We annually investigate sales contracts with extended payment terms in excess of one etermine if there is sufficient history to prove assurance of collectability under the original ntract payments terms. Based upon this investigation, we have concluded that adequate g historical documentation exists to conclude collectability is probable for sales contracts nded payment terms of 36 months or less.

ultiple product deliverables are included under a sales contract, we allocate revenue to each ccounting based upon its respective fair value against the total contract value and defer recognition on those deliverables where we have not met all requirements of revenue on. We allocate revenue to each unit of accounting based upon its fair value as determined or specific objective evidence (VSOE). VSOE of fair value for all elements of an nent is based upon the normal pricing and discounting practices for those products and when sold individually.

gnize revenue when the product is delivered, acceptance terms have been fulfilled and the teria listed above are met. We defer revenue for any undelivered units of accounting. bles are divided into separate units of accounting if:

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

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

elivery of any undelivered item is considered probable and substantially in our control.

nnot objectively determine the fair value of any undelivered units of accounting included in gement, all revenues are deferred until all of the items are delivered and services have been d, or until fair value can objectively be determined for any remaining undelivered units of ng.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ices for initial installation, as well as standard warranty and technical support, are not y priced components of our sales arrangements and are included in our revenues when the ed product sales revenue is recognized. Labor costs for gaming machine installs and tion placements, as well as labor costs associated with performing routine maintenance on tion gaming machines are included in selling and administrative expenses. We accrue for of installing gaming machines sold to our customers at the time of sale, based on the f such gaming machines that we expect to install for our customers. We capitalize the costs gaming operations equipment.

y the provisions of SOP 97-2, to sales of certain of our products, when appropriate. SOP marily effects our *Bluebird2* and SiP revenues and will impact future revenues in a ed gaming (NG) environment because development of *Bluebird2*, SiP and future NG has become more focused on computer software applications and systems to be sold and an our previous products. As we begin to commercialize NG system software in fiscal e application of SOP 97-2 will require us to obtain VSOE from third parties for each NG product prior to recognizing revenue on any related gaming machine sales which may recognition of revenue, and increase deferred revenues and deferred costs. NG refers to a ed gaming system that links groups of server-enabled gaming machines to a remote server sino data center.

Operations

gaming operations revenues from leasing gaming machines, VLTs and other leased nt, and earn royalties from third parties under license agreements to use our game content ectual property.

P leasing agreements, revenues are recognized for each gaming machine based upon a ge of coin-in, which is the amount of coins, currency and credits wagered on the gaming or a combination of a fixed daily fee and a percentage of coin-in. Participating casinos pay tage of the coin-in from WAP gaming machines directly to us for services related to the ssembly, installation, operation, maintenance, and marketing of the WAP systems and to er the progressive jackpot funding. Revenues are recognized as earned when collectibility nably assured. WAP systems entail a configuration of numerous electronically linked machines located in multiple casino properties within a single gaming jurisdiction ed to our central computer system via a network of communications equipment. WAP aming machines differ from non-linked gaming machines in that they build a progressive vith every wager until a player hits the top award winning combination.

ystem electronically links gaming machines within a single casino to a site controller ilds a series of small progressive jackpots within that specific casino based on every wager the LAP system; whereas a WAP jackpot system links gaming machines in multiple to a progressive jackpot within a single gaming jurisdiction. Each casino funds LAP ve jackpots won by patrons of its casino.

offer participation gaming machines on a non-linked basis, which we call stand-alone Stand-alone and LAP progressive participation lease agreements are based on either a mined percentage of the daily net win of each gaming machine or a fixed daily rental fee, e specific product, a percentage of the coin-in.

wned daily fee game lease agreements are for a fixed daily fee per day. Casino-owned games are games for which we sell the base gaming machine to the casino at a normal ce and earn a normal product sales gross profit and then earn a lower ongoing daily fee sing the top box and game to the casino. We exclude casino-owned daily fee games from led base of participation gaming machines.

ay be operated as stand-alone units or may interface with central monitoring systems d by government agencies. Our leased VLTs typically are located in places where pe gaming is not the only

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

n, such as racetracks, bars and restaurants, and are usually operated by the lottery tion of the jurisdiction. Our revenues are based on a fixed percentage of the daily net win of s or a fixed daily rate. We exclude our leased VLTs from our installed base of participation machines.

stomers prefer to lease our standard for-sale gaming machines as an option rather than to them. In these cases, we lease the gaming machine, either for a fixed daily fee or as a ge of the net win of the gaming machine. We do not include leased for-sale units in our base of participation gaming machines.

greements with licensees who are generally located in geographic areas or operate in where we are not active, we license our games, artwork, and other intellectual property. royalties are recorded as earned when the licensee purchases or places the game or other al property, and collectibility is reasonably assured.

Used Gaming Machines

nerated from the remanufacture and sale of used gaming machines, including cash d from the remanufacture and sale of used gaming operations machines, is included in our lated Statement of Cash Flows in cash flow from operating activities for the periods in ch sales occur and have not been material in fiscal 2009, 2008 and 2007.

ion of Non-U.S. Currency Amounts

l currency is the functional currency (primary currency in which business is conducted) for U.S. subsidiaries and their assets and liabilities are translated into U.S. dollars at fiscal exchange rates. Revenue and expense items are translated at average exchange rates ng during the fiscal year. Translation adjustments are included in accumulated other ensive income in our Consolidated Statement of Stockholders Equity and Comprehensive Gains and losses arising from intercompany foreign currency transactions that are of a n investment nature are reported in the same manner as translation adjustments. Foreign transaction gains (losses) are included in Interest and other income, net and totaled $(2.4) $0.4 million and ($0.3) million in fiscal years 2009, 2008 and 2007, respectively.

sh Equivalents and Restricted Cash

y liquid investments with maturities of three months or less when purchased are considered ivalents. Restricted cash of $19.0 million and $18.8 million at June 30, 2009 and 2008, ely, is required to fund WAP systems jackpot payments.

s Receivable, Notes Receivable, Allowance for Doubtful Accounts and Bad Debt Expense

y our accounts and notes receivable at face amounts less an allowance for doubtful . On a quarterly basis, we evaluate our receivables and establish the allowance for doubtful based on a combination of specific customer circumstances, credit conditions and our f write-offs and collections. We recorded $7.1 million of bad debt expense in fiscal 2009 d to $3.5 million in fiscal 2008 and $1.7 million in fiscal 2007.

F-11

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

wing summarizes the components of current and long-term Accounts and notes receivable, scal 2009 and 2008:

	As of June 30, 2009	2008
Current:		
Accounts receivable	$ 105.6	$ 134.8
Notes receivable	112.6	66.7
Allowance for doubtful accounts	(4.0)	(3.0)
Current accounts and notes receivable, net	$ 214.2	$ 198.5
Long-term, included in Other assets, net:		
Notes receivable	$ 39.6	$ 7.7
Allowance for doubtful accounts	(1.3)	
Long-term notes receivable, net	$ 38.3	$ 7.7
Total accounts and notes receivable, net	$ 252.5	$ 206.2

cy is to generally not charge interest on receivables after the invoice payment becomes past eceivable is considered past due if payments have not been received within agreed upon erms. With regard to notes receivable, interest income is recognized ratably over the life of receivable and any related fees or costs to establish the notes are charged to expense as as they are considered insignificant. Actual or imputed interest, if any, is determined based nt market rates at the time the note originated and is recorded in Interest and other income, ly over the payment period.

value of notes receivable is estimated by discounting expected future cash flows using nterest rates at which similar loans would be made to borrowers with similar credit ratings ining maturities. As of June 30, 2009 and 2008, the fair value of the notes receivable, net nated the carrying value.

ies

es are valued at the lower of cost (determined by the first-in, first-out method) or market. e inventory quarterly based on estimates of potentially excess and obsolete inventory after ng forecasted demand and forecasted average selling prices. However, forecasts are subject ons, cancellations and rescheduling. Actual demand may differ from anticipated demand, differences may have a material effect on our consolidated financial statements. Demand inventory is subject to technical obsolescence. Inventory on hand in excess of forecasted s written down to net realizable value when such determination is made.

e market exists mostly outside of North America for used gaming machines. When we gaming machine on trade-in, we estimate a carrying value for the gaming machine based ndition of the gaming machine, as well as our experience in selling used gaming machines estimates could change due to changes in demand in general for used gaming machines. er sell these trade-ins as-is or renovate the gaming machines before resale. We also sell tion gaming machines as used gaming machines when we no longer need them in our operations business. Therefore, we review our used gaming machine inventory for ent on a quarterly basis. Actual demand for new and used gaming machines may differ icipated demand, and such differences may have a material effect on our consolidated statements.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

out and Warehousing Costs

out and warehousing costs are included in cost of product sales in our Consolidated nts of Income. Freight-out costs for gaming operations equipment are capitalized and ed over the useful life of the related asset.

n and Development Costs, and Costs for Computer Software Utilized in Products Sold or

unt for research and development costs in accordance with Statement of Financial ng Standards (SFAS) No. 2, *Accounting for Research and Development Costs*. (SFAS 2). gly, costs associated with product development are expensed as incurred and included in and development in our Consolidated Statements of Income.

hase, license and incur costs for computer software which will be utilized in the products r lease. Such costs are capitalized under SFAS No. 86, *Accounting for the Costs of r Software to be Sold, Leased or Otherwise Marketed,* (SFAS 86). According to SFAS incurred in creating a computer software product are charged to expense when incurred as and development pursuant to SFAS 2 until technological feasibility has been established roduct, after which point costs are capitalized. Generally our products reach technological y when a working model of the software is available. Annual amortization of capitalized costs is recorded on a product by product basis at the greater of the amount computed) the ratio that current gross revenues for a product bear to the total of current and ed future gross revenues for that product or (b) the straight-line method over the remaining d economic life.

r regulatory approval costs for our products after technological feasibility is achieved. ed regulatory approval costs, net were $7.9 million and $6.3 million as of June 30, 2009 , respectively which are included in other non-current assets. Amortization expense for ly capitalized regulatory approval costs totaled $6.7 million, $5.2 million and $2.1 million 2009, 2008 and 2007, respectively. Regulatory approval costs related to projects that are ued are expensed when the determination is made.

Operations Equipment and Property, Plant and Equipment operations equipment and Property, plant and equipment are stated at cost, net of ated depreciation. Depreciation of these assets is computed on a straight-line basis over the g estimated useful lives:

Buildings and improvements	10 to 40 years
Leasehold improvements	Lesser of term of lease or useful life
Machinery and equipment	3 to 10 years
Gaming operations equipment	1 to 3 years
Furniture and fixtures	10 years
Capitalized internal use software costs	3 to 7 years

ant replacements and improvements are capitalized. Other maintenance and repairs are .

w the carrying amount of these assets when events or changes in circumstances indicate carrying amount of an asset may not be recoverable. An impairment loss would be ed when estimated

F-13

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

sh flows expected to result from the use of the asset and its eventual disposition is less than ng amount. When an impairment loss is to be recognized for an asset, it is measured by ng the carrying value to the fair value. Fair value is generally measured as the present value ted future cash flows.

unt for costs incurred to develop software for internal use in accordance with SOP 98-1, *nting for the Costs of Computer Software Developed or Obtained for Internal Use*. ently, any costs incurred during preliminary project stages are expensed; costs incurred he application development stages are capitalized and costs incurred during the lementation/operation stages are expensed. Once the software is placed in operation, we te the capitalized asset cost over its useful life, which can be up to 7 years for software o our Oracle ERP system. The net book value of capitalized internal use software costs was llion and $17.6 million as of June 30, 2009 and 2008, respectively which are included in talized internal use software costs and construction-in-progress categories.

le Assets

dance with SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) we classify e assets into three categories: (1) intangible assets with finite lives subject to amortization; gible assets with indefinite lives not subject to amortization; and (3) goodwill. We test e assets with finite lives for impairment when conditions exist that indicate the carrying ay not be recoverable. We do not amortize intangible assets with indefinite lives and . For intangible assets with indefinite lives and goodwill, we perform tests for impairment nnually or more frequently when events or circumstances indicate that assets might be . We perform our impairment tests of goodwill at our reporting unit level which is at the ated level. Such impairment tests for goodwill include comparing the fair value with the unit s carrying value, inclusive of the goodwill. The fair value of a reporting unit refers to unt at which the unit as consolidated could be bought or sold in a current transaction willing parties. As an initial indication of potential goodwill impairment, we compared our apitalization based on outstanding shares to our book value as of June 30, 2009, which in an excess of market value over book value of almost $1.0 billion. Fair values of other le assets with indefinite lives are derived using discounted cash flow analyses. When ate, we consider the assumptions that we believe hypothetical marketplace participants se in estimating future cash flows. In addition, where applicable, an appropriate discount ed, based on our cost of capital rate or location-specific economic factors. In case the fair less than the carrying value of the assets, we record an impairment charge to reduce the value of the assets to fair value.

mine the useful lives of our identifiable finite lived intangible assets after considering the facts and circumstances related to each intangible asset. Factors we consider when ing useful lives include the contractual term of any agreement, the history of the asset, our n strategy for the use of the asset, any laws or other local regulations which could impact l life of the asset and, other economic factors, including competition and specific market ns. Intangible assets that are deemed to have definite lives are amortized, generally on a ine basis, over their useful lives. See Note 7, Intangible Assets.

alize as identifiable finite lived intangible assets advances for royalty and licensing fees connection with licensing agreements we have for our use of third party brands, intellectual and technologies. When the products using the licensed intellectual property or technology generate revenue, we begin amortization of the amount advanced. In cases where the represents a paid up license, the advance is amortized based on the estimated life of the those cases where the license agreement provides for a royalty to be earned by the licensor gaming machine sold or placed on a lease, the advance is

F-14

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ed based on the royalty rates provided in the license agreement. In both cases the tion of the advances is included in cost of product sales if related to a product sale, or cost g operations if related to placement or lease of gaming machines or licenses in gaming ns revenues. To the extent we determine that the products developed would not fully he amounts capitalized and future minimum commitments in the license agreement, we rd an immediate impairment charge in our Consolidated Statements of Income at the time etermination.

ckpot Liabilities and Expenses

kpots are payable either immediately in the case of instant pay progressive jackpots or, for nt pay jackpots, at the jackpot winner s choice, in a lump sum or in equal installments over r period. For non-instant pay jackpots, winners may elect to receive a single lump sum for the value of the jackpot, discounted to present value at applicable interest rates, in lieu ual installments. We record a WAP jackpot liability based on the actual volume of coin-in g machine play plus the initial progressive meter liability (reset) on each WAP system in sdiction, discounted to net present value for non-instant pay jackpots. We defer jackpot for the reset liability on each WAP linked system, which is subsequently amortized as xpense in cost of gaming operations as revenues are generated from the coin-in or gaming play. Our jackpot liabilities totaled $9.6 million and $11.3 million at June 30, 2009 and spectively. Our jackpot expense was $14.2 million, $17.9 million and $13.3 million for 09, 2008 and 2007, respectively. To fund our WAP jackpot liabilities, we are required to restricted cash and cash equivalents, as described above.

ng Expense

of advertising is charged to expense as incurred. The cost of advertising for fiscal 2009, 2007 was $0.8 million, $1.0 million and $1.0 million, respectively.

ing for Income Taxes

unt for income taxes using the asset and liability method provided in SFAS No. 109, *ting for Income Taxes* . Under this method, income taxes are provided for amounts currently and for amounts deferred as income tax assets and liabilities based upon differences the financial statement carrying amounts and the tax bases of existing assets and liabilities. income taxes are measured using the U.S., state and foreign jurisdictions enacted tax rates ssumed to be in effect when the basis differences reverse. We recognize accrued interest lties associated with uncertain income tax positions as part of income tax expense. Income our foreign subsidiaries are provided at the tax rates applicable to the tax jurisdictions in ey are located.

the provisions of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) *ounting for Uncertainty in Income Taxes* (FIN 48) to our uncertain income tax provisions. N 48, the benefits of tax positions that are more likely than not of being sustained upon ed on the technical merits of the tax position are recognized in our Consolidated Financial ts; positions that do not meet this threshold are not recognized. For tax positions that are at re likely than not of being sustained upon audit, the largest amount of the benefit that is ely than not of being sustained is recognized in our Consolidated Financial Statements.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ased Compensation Stock Option Assumptions

value of each stock option grant is estimated on the date of grant using the Black-Scholes ricing model with the following weighted average assumptions used for grants in fiscal 08 and 2007:

	2009	2008	2007
Risk-free interest rate	2.2%	3.3%	4.8%
Expected life of options (in years)	4.65	4.75	5.16
Expected volatility .	0.39	0.35	0.36
Dividend yield	0.0%	0.0%	0.0%

l 2009, 2008 and 2007, the expected life of each award granted was calculated using the ied method in accordance with Staff Accounting Bulletin (SAB) No. 107 and as amended in 110. We do not have sufficient historical exercise data to provide a reasonable basis upon estimate the expected life of options. The expected volatility rate has been calculated weekly closing prices of our common shares from July 1, 2003. In accordance with the e in SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) we estimate volatility based on the historical realized volatility giving consideration to how future ce might reasonably be expected to differ from historical experience. We calculate the l volatility beginning July 1, 2003, as we believe our stock price volatility prior to that date e expected to differ significantly from subsequent stock price volatility as, prior to July 1, e focused on resolving issues in our legacy operating system software, whereas after that began introducing our new operating system, new gaming cabinet and new game themes, merging as the business we are today. See Note 12, Equity Compensation Plan. The interest rate is based on the implied yield currently available on U.S. Treasury zero coupon th a remaining term that approximates the expected life of the award. Expected dividend ased on historical dividend payments.

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

roduct sales consists primarily of raw materials, labor and manufacturing overhead. These ents of cost of product sales also include licensing and royalty charges, inbound and d freight charges, purchasing and receiving costs, inspection costs, and internal transfer gaming operations consists primarily of wide-area progressive jackpot expenses, licensing ty charges, telephone costs, gaming operations taxes and fees and parts.

nd administrative expenses consist primarily of sales, marketing, distribution, installation orate support functions such as administration, information technology, legal, regulatory nce, human resources and finance. The costs of distribution were $21.4 million, $20.4 nd $17.2 million for the fiscal year ended 2009, 2008 and 2007, respectively.

stimates

solidated Financial Statements have been prepared in conformity with U.S. generally accounting principles. Such preparation requires us to make estimates and assumptions t the amounts reported in our Consolidated Financial Statements and Notes thereto. Actual uld differ from those estimates.

F-16

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ue Measurements

the provisions of SFAS 157, Fair Value Measurements (SFAS 157) to our financial assets
ncial liabilities. SFAS 157 defines fair value as the exchange price that would be received
set or paid to transfer a liability (an exit price) in the principal or most advantageous market
sset or liability in an orderly transaction between market participants on the measurement
AS 157 also establishes a fair value hierarchy which requires an entity to maximize the use
vable inputs when measuring fair value. The adoption of SFAS 157 effective July 1, 2008
ave a material impact on our consolidated financial statements.

. 157 describes three levels of inputs that may be used to measure fair value:

nputs are unadjusted quoted prices in active markets for identical assets or liabilities that
ne reporting entity has the ability to access at the measurement date.

nputs to the valuation method include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

nputs to the valuation methodology are unobservable and significant to the fair value
neasurement.

ne 30, 2009, the only assets subject to fair value measurement in accordance with SFAS
e investments in various money market funds totaling approximately $96.6 million. These
arket investments are included in cash and cash equivalents and restricted cash and cash
nts on our Consolidated Balance Sheets and are considered level 1 securities valued at
arket prices.

ration of Credit Risk

l instruments that potentially subject us to concentrations of credit risk consist principally
nd cash equivalents, and receivables. We place cash and cash equivalents in high credit
inancial institutions and in short-duration high-quality securities. With the exception of
vernment and Agency securities and overnight investment sweeps, our short-term
ent policy limits the amount of credit exposure in any one financial institution, industry
type of investment. Cash on deposit may be in excess of Federal Deposit Insurance
ion limits (FDIC). As a result of the financial market crisis, our recent investment decisions
ities have been based on capital preservation rather than on investment returns. We invest
and cash equivalents balances to comply with the Temporary Guarantee Program of the
ney Market Funds sponsored by the U.S. Treasury and Temporary Liquidity Guarantee
sponsored by the FDIC.

F-17

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

vables are concentrated in the following legalized gaming jurisdictions at June 30, 2009:

United States and Canada	59%	International	41%
Nevada	9%	Argentina	8%
Canada	6%	Peru	6%
Other (less the 5% individually)	44%	Other (less the 5% individually)	27%

ne 30, 2009, approximately 16% of our employees are covered by a collective bargaining nt which expires on June 30, 2011.

Issued Accounting Standards

mber 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). 7 defines fair value, establishes a framework for measuring fair value in accordance with accepted accounting principles, and expands disclosures about fair value measurements. 7 does not require any new fair value measurements, but provides guidance on how to fair value by providing a fair value hierarchy used to classify the source of the information. ent to the issuance of SFAS 157, the FASB issued FASB Staff Position (FSP) 157-2 *e Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 delays the effective date of 7 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or at fair value in the financial statements on a recurring basis. For the instruments subject to tive date delay under FSP 157-2, the effective date to adopt the fair value provisions for us uly 1, 2009. On October 10, 2008, the FASB issued FSP No. 157-3, *Determining the Fair a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3) FSP 157-3 change the fair value measurement principles in SFAS 157, but rather provides guidance pplication of those measurement principles in the extreme inactive markets that currently e adoption of SFAS 157 in fiscal 2009 had no material impact on our Consolidated Statements.

ary 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets ncial Liabilities including an amendment of SFAS 115* , (SFAS 159). SFAS 159 permits o choose to measure many financial instruments and certain other items at fair value that urrently required to be measured at fair value. The objective of SFAS 159 is to reduce both ity in accounting for financial instruments and the volatility in earnings caused by g related assets and liabilities using different measurement techniques. The fair value ment provisions are elective and can be applied to individual financial instruments.

9 requires additional disclosures related to the fair value measurements included in the financial statements. We adopted this Statement beginning July 1, 2008 which had no impact on our Consolidated Financial Statements.

2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* 42-3) which amends the factors that should be considered in developing renewal or extension ons used to determine the useful life of a recognized intangible asset under SFAS 142. sly, under the provisions of SFAS 142, an entity was precluded from using its own ons about renewal or extension of an arrangement where there was likely to be substantial naterial modifications. FSP 142-3 removes the requirement of SFAS 142 for an entity to r whether an intangible asset can be renewed without substantial cost or material ation to the existing terms and conditions and requires an entity to consider its own ce in renewing similar arrangements. FSP 142-3 is effective for fiscal years beginning after er 15, 2008 and interim periods within those fiscal years, which for us will be in Fiscal rly adoption is prohibited. The disclosure requirements must be applied prospectively to all le assets recognized as of, and subsequent to, the effective date. We will continue to the impact of the provisions of FSP 142-3 on our Consolidated Financial Statements.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2009, the FASB issued SFAS No. 165, *Subsequent Events*, which establishes principles irements for reporting events or transactions occurring after the balance sheet date. It an entity to disclose the date through which subsequent events have been evaluated and that date is the date the financial statements were issued. This pronouncement requires an consider supplementing the financial statements with pro forma financial information if an nized subsequent event is significant and to reissue financial statements filed with the SEC regulatory agencies if failure to do so could make the financial statements misleading. We his statement for the quarter ended June 30, 2009 and updated our disclosures accordingly.

009, the FASB issued SFAS No. 168, *Accounting Standards Codification and Hierarchy rally Accepted Accounting Principles*, which establishes the Codification as the single f authoritative U.S. GAAP. This statement is effective for interim and annual statements fter September 15, 2009 and will change the way we reference accounting standards in ings.

NINGS PER SHARE

d diluted earnings per share are calculated as follows for the three fiscal years ended

	2009	2008	2007
me	$ 92.2	$ 67.5	$ 48.9
interest expense and amortization of issuance cost on le subordinated notes	1.9	2.1	2.2
arnings (numerator)	$ 94.1	$ 69.6	$ 51.1
ighted average common shares outstanding	49.2	50.2	48.4
effect of stock options	1.0	1.5	2.4
effect of restricted common stock and warrants	0.2	0.2	0.1
effect of convertible subordinated notes	8.7	8.7	8.7
weighted average common stock and common stock equivalents nator)	59.1	60.6	59.6
nings per share of common stock	$ 1.87	$ 1.34	$ 1.01

arnings per share of common stock and common stock nts	$ 1.59	$ 1.15	$ 0.86
stock equivalents excluded from the calculation of diluted per share because their impact would render them anti-dilutive	2.3	0.7	1.0

in our anti-dilutive common stock equivalents for 2009 are warrants to purchase 500,000 f our common stock which are contingent upon future events that were issued to Hasbro Hasbro International, Inc. (Hasbro). See Note 12 Equity Compensation Plan Warrants . arrants were excluded from the calculation because the vesting criteria were not met. in our anti-dilutive common stock equivalents for 2007 are warrants to purchase 375,000 f our common stock issued to Hasbro in 2003. See Note 12 Equity Compensation Plan .

F-19

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

NESS ACQUISITIONS

2008, we completed the acquisition of 100% of the outstanding stock of privately held in Progress GmbH (SiP), an Austrian-based company focused on developing and selling related systems, including linked progressive systems and slot accounting systems le for smaller international casino operators. The total consideration for SiP, including on costs, was $4.9 million. The final purchase price allocation resulted in $3.1 million of le intangible assets and $1.8 million of goodwill. SiP operates as a separate subsidiary. Pro nancial information is not provided as this acquisition is not material to our consolidated statements.

NTORIES

es consisted of the following at June 30:

	2009	2008
materials and work-in-process	$ 26.8	$ 40.1
shed goods	16.3	19.8
l inventories	$ 43.1	$ 59.9

ments included in work-in-process and finished goods include raw materials, direct labor head expenses. We recorded raw material and finished goods inventory write-downs approximately $13.3 million, $10.1 million and $5.3 million for fiscal 2009, 2008 and spectively. These charges are classified in cost of products sales in our Consolidated Statement.

ING OPERATIONS EQUIPMENT AND PROPERTY, PLANT AND EQUIPMENT

components of Gaming operations equipment were as follows at June 30:

	2009	2008

ning operations equipment	$ 279.3	$ 245.3
s accumulated depreciation	(211.3)	(169.9)
gaming operations equipment	$ 68.0	$ 75.4

components of Property, plant and equipment were as
ows at June 30:

	2009	2008
d	$ 17.8	$ 11.3
dings and improvements	72.6	59.5
chinery and equipment	70.2	71.5
italized internal use software costs	22.7	16.5
niture and fixtures	14.1	14.3
struction-in-process	35.3	24.8
	232.7	197.9
s accumulated depreciation	(73.9)	(72.2)
property, plant and equipment	$ 158.8	$ 125.7

F-20

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

NGIBLE ASSETS

/

ges in the carrying amount of goodwill are as follows:

odwill balance at June 30, 2007	$ 17.4
act of SiP acquisition	1.8
eign currency translation adjustment	2.7
odwill balance at June 30, 2008	21.9
eign currency translation adjustment	(2.0)
odwill balance at June 30, 2009	$ 19.9

tangible Assets

wing table summarizes additions to other intangible assets during fiscal 2009.

	Total Additions
te lived intangible assets:	
alty advances for licensed brands, talent, music and other	$ 9.7
ensed or acquired technologies	2.9
nts	2.4
tomer relationships	
demarks	0.2
l	$ 15.2

of our intangible assets including goodwill are denominated in foreign currency and, as
lude the effects of foreign currency translation.

angible assets consisted of the following as of June 30:

		2009			2008		
	Useful Life (Years)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
ed intangible							
advances for brands, talent, d other	1 -15	$ 79.8	$ (44.2)	$ 35.6	$ 72.9	$ (37.6)	$ 35.3
or acquired gies	1- 15	42.6	(9.6)	33.0	39.2	(7.4)	31.8
	4-17	20.9	(4.2)	16.7	18.5	(2.1)	16.4
r relationships	6	4.7	(2.3)	2.4	5.2	(1.7)	3.5
rks	4	1.1	(0.5)	0.6	0.9	(0.3)	0.6
		$ 149.1	$ (60.8)	$ 88.3	$ 136.7	$ (49.1)	$ 87.6
e lived intangible							
brand names		$ 3.6	$	$ 3.6	$ 3.6	$	$ 3.6

F-21

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

owing table reconciles goodwill and other intangible assets presented above to Intangible corded on our Consolidated Balance Sheets at June 30:

	2009	2008
odwill	$ 19.9	$ 21.9
te lived intangible assets, net	88.3	87.6
efinite lived intangible assets	3.6	3.6
s: royalty advances and licensed or acquired technologies, rt-term	(12.5)	(6.8)
-current intangible assets	$ 99.3	$ 106.3

ation expense for finite lived intangible assets was $14.2 million, $19.9 million and $13.3 or fiscal 2009, 2008 and 2007, respectively. Fiscal 2008 includes a $3.7 million pre-tax wn to net realizable value of a technology license.

mated aggregate amortization expense for finite live intangible assets for each of the next s is as follows:

r ended June 30,	
0	$ 12.5
1	8.6
2	8.5
3	5.6
4	5.3

mated aggregate future intangible amortization as of June 30, 2009 does not reflect the ant commitments we have for future payments for intangible assets. See Note 13, tments, Contingencies and Indemnifications.

ER ACCRUED LIABILITIES

ponents of other accrued liabilities were as follows at June 30:

	2009	2008
rued WAP jackpot liability	$ 9.6	$ 11.3
rued royalties and licensing fees	8.8	7.8
erred revenue	7.5	5.2
rent income taxes payable	1.0	9.2
rued common stock repurchase		5.0
er accrued liabilities	10.5	8.5
al other accrued liabilities	$ 37.4	$ 47.0

F-22

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ME TAXES

owing is a summary of income (loss) before income taxes of U.S. and international
ns for the fiscal years ended June 30:

	2009	2008	2007
ted States	$ 139.7	$ 106.1	$ 69.4
rnational	0.7	(0.5)	2.3
l	$ 140.4	$ 105.6	$ 71.7

nt components of the provision (benefit) for income taxes were as follows for the fiscal
led June 30:

	2009	2008	2007
rent:			
eral	$ 34.6	$ 32.2	$ 12.4
e	4.3	3.7	1.0
eign	0.7	0.4	1.1
l current	39.6	36.3	14.5
erred:			
eral	5.9	(6.1)	(0.2)
e	0.8	(0.5)	(0.4)
eign	(0.1)	(0.4)	
l deferred	6.6	(7.0)	(0.6)
benefit from exercise of stock options	2.0	8.8	8.9
ome tax provision, net	$ 48.2	$ 38.1	$ 22.8

income taxes reflect the net tax effects of temporary differences between the amount of
d liabilities for financial reporting purposes and the amounts used for income tax purposes.
nt components of our deferred income tax assets and liabilities at June 30 were:

	2009	2008
erred income tax assets resulting from:		
rent:		
eivables valuation allowances	$ 1.4	$ 1.2
entory valuation reserves	1.4	2.5
rued liabilities and other items not currently deductible	3.2	3.6
al current deferred income tax assets	6.0	7.3
-current:		
re-based payment expense	14.9	10.8
k over tax depreciation	13.3	20.7
er non-current	3.0	3.4
al non-current deferred income tax assets	31.2	34.9
erred income tax liabilities resulting from:		
italized regulatory approval and internal use software elopment costs	(9.8)	(8.1)
italized patents and trademarks	(8.0)	(8.1)
al non-current deferred income tax liabilities	(17.8)	(16.2)
al net deferred income tax assets	$ 19.4	$ 26.0

F-23

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

rred income tax provision has been recorded for United States taxes related to nately $12.9 million of undistributed earnings of certain foreign subsidiaries, which are ed to be permanently reinvested. Determination of the deferred income tax liability on these ed earnings is not practicable because such liability, if any, is dependent on circumstances f and when the remittance occurs.

ing the realizability of deferred income tax assets, management considers whether it is ely than not that some portion or all of the deferred income tax assets will not be realized. nate realization of deferred income tax assets is dependent upon the generation of future ncome during the periods in which those temporary differences become deductible. nent considers the scheduled reversal of deferred income tax liabilities, projected future ncome, and tax planning strategies in making this assessment.

ision for income taxes differs from the amount computed using the statutory United States ncome tax rate as follows for the fiscal years ended June 30:

	2009	2008	2007
utory federal income tax rate	35.0%	35.0%	35.0%
e income taxes, net of federal benefit	2.9	2.9	2.8
nestic manufacturer s deduction	(1.8)	(1.7)	(0.7)
earch and development tax credits	(3.1)	(1.4)	(4.1)
manent items	0.2	0.5	0.5
nge in income tax contingencies	1.1	0.9	(0.2)
ort sales deductions			(0.8)
er, net		(0.1)	(0.7)
ctive income tax rate	34.3%	36.1%	31.8%

er effective tax rate in fiscal 2009 primarily results from the impact of the retroactive ement of the research and development credit to January 1, 2008. The research and ment tax credit legislation expired on December 31, 2007. In early October 2008 the esearch and development tax credit was reinstated retroactive to the beginning of calendar 8. The effective income tax rate for fiscal 2009 includes approximately $0.02 per diluted pact of the retroactive reinstatement of the research and development tax credit to the g of calendar year 2008.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ently apply FIN 48 under which the benefits of income tax positions that are more likely of being sustained upon audit based on the technical merits of the tax position are ed in our Consolidated Financial Statements; positions that do not meet this threshold are gnized. For income tax positions that are at least more likely than not of being sustained dit, the largest amount of the benefit that is more likely than not of being sustained is ed in our Consolidated Financial Statements. Upon applying FIN 48, we recorded a $1.8 ncrease in our liability for unrecognized income tax benefits that was accounted for as a in our retained earnings as of July 1, 2007. The reconciliation of the beginning and ending recognized income tax benefits, excluding accrued interest and penalties of $0.8 million million for fiscal 2009 and 2008, respectively is as follows:

	2009	2008
ance at July 1	$ 5.8	$ 5.2
itions related to prior year tax positions		
uctions related to prior year tax positions		(0.2)
itions related to current year positions	1.4	0.8
uctions due to settlements and payments	(0.2)	
uctions due to lapse of Statute		
ance at June 30,	$ 7.0	$ 5.8

tal unrecognized tax benefits, including accrued interest and penalties of $0.8 million, $7.6 net of the federal benefit) represents the portion that, if recognized, would reduce the income tax rate.

eptember 2008 quarter, the Internal Revenue Service began an audit of our U.S. federal ax returns for fiscal years 2004 through 2007. In addition, we are currently under audit in a ate for the same years. As a result of these audits it is reasonably possible that the total of the unrecognized income tax benefits will significantly change within the next 12 At this time we are unable to estimate the amount of the potential change. Approximately lion of unrecognized income tax benefits are currently subject to the audits referred to t this time we believe appropriate provisions for all outstanding issues have been made for ictions and all open years. We, or one of our subsidiaries, files income tax returns in the eral, various state, local and foreign jurisdictions. We are no longer subject to any nt U.S. federal, state, local or foreign income tax examinations by tax authorities for years scal 2004.

VERTIBLE SUBORDINATED NOTES AND REVOLVING CREDIT FACILITY

ble Subordinated Notes

30, 2009, we had $115 million of convertible subordinated notes outstanding, bearing at 2.75% maturing on July 15, 2010. The notes are exchangeable at any time into an e of 8.7 million shares of our common stock at a conversion price of $13.19 per share, o adjustment. The notes are subordinated in right of payment to all existing and future ebt and are effectively subordinated to all of the indebtedness and liabilities of our ies. The notes are not callable. We pay interest on the notes semi-annually on January 15 15 of each year, aggregating $3.2 million annually. The conversion of the 2.75% ble subordinated notes to common stock is dependent on individual holders choices to which is dependent on the spread of the market price of our stock above the conversion ce of $13.19 per share, and such conversion would reduce our annual interest expense. Our ble notes are conventional convertible debt instruments in which the holder may only ne value of the conversion option by exercising the option and receiving a fixed number of f our common stock. None of the holders have converted any of their convertible ated notes into our common stock.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ne 30, 2009, the fair value of the convertible subordinated notes was $274.8 million. The e of our convertible fixed rate debt is significantly dependent on the market price of our stock into which it can be converted. We have no maturities of debt or sinking fund ents through June 30, 2010.

g Credit Facility

30, 2009, $100 million was available on our revolving senior credit facility which will nder its current terms, on December 31, 2009. We are currently in negotiations to amend nd our existing facility or enter into a new credit facility. The terms of any such amendment acility may include a decrease in the aggregate commitment available to us under that ncreased interest rates and facility fees, and include new covenants and undertakings that rict our operations. We cannot guarantee that we will successfully extend or replace our g credit facility before it expires although we intend to do so.

lving credit agreement, as amended, provides for $100 million of unsecured borrowings December 31, 2009, including the potential to expand the line up to $125 million. Up to ion of the credit facility is available for the issuance of letters of credit. The credit nt requires that we maintain certain financial ratios, which could limit our ability to acquire es, declare dividends or make any distribution to holders of any shares of capital stock, or or otherwise acquire such shares of our common stock. At June 30, 2009, approximately million was available for such purposes under the most restrictive of these covenants. No were outstanding under the revolving credit facility as of June 30, 2009 and June 30, 2008.

er 2008, due to the volatility and lack of liquidity in the capital markets, we borrowed $25 on our revolving credit facility and invested the proceeds in treasury bills with 30 day s. We repaid the $25 million by December 31, 2008. In January 2009, due to the continued and lack of liquidity in the capital markets, we borrowed $25 million on our revolving cility and invested the proceeds in treasury bills with 30 day maturities. We repaid the $25 by March 31, 2009 and did not borrow any amounts under our revolving credit facility in 2009 quarter.

ncial covenants under the credit facility consist of a leverage ratio and an interest coverage e maximum leverage ratio is currently 3.25x and is computed as total debt outstanding at f each quarter divided by the trailing twelve months earnings before interest, income taxes, ion and amortization, including non-cash charges. The minimum interest coverage ratio is

2.5x and is computed as trailing twelve months earnings before interest and income taxes
y trailing twelve months interest charges.

CKHOLDERS EQUITY

orized common stock consists of 100.0 million shares at $0.50 par value. Additionally, we
million shares of $0.50 par value preferred stock authorized. The preferred stock is
n series, and the relative rights and preferences and the number of shares in each series are
blished by our Board of Directors.

F-26

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Stock Repurchase Program

st 3, 2009, our Board of Directors authorized the repurchase of an additional $75 million mmon stock over the following twenty-four months increasing our remaining repurchase ation to approximately $150 million. This authorization increases the existing program, ly authorized on August 4, 2008, from $150 million to $225 million and extended the on date to August 3, 2011. As of June 30, 2009, we had approximately $75 million g of our repurchase authorization. Pursuant to the authorization, purchases may be made ne to time in the open market, through block purchases or in privately negotiated ons. The timing and actual number of shares repurchased will depend on market conditions. iscal 2009, we purchased 1,602,470 shares for approximately $35.5 million at an average pproximately $22.15 per share. At June 30, 2008, we had purchased approximately $5.0 f our common stock which was settled and paid in fiscal 2009.

ITY COMPENSATION PLAN

ently have one equity compensation plan under which new grants may be made: our d and Restated 2005 Incentive Plan (the Plan), which was originally approved by our ders in fiscal 2005 and approved, as amended, in fiscal 2007. The Plan consolidated shares e under our previous stock option plans into the new Plan, although outstanding equity nder the previous plans are still governed by those individual plans. The Plan permits us to tions to purchase shares of our common stock, restricted stock, and other stock awards. may be granted as incentive stock options, designed to meet the requirements of 22 of the Internal Revenue Code or they may be non-qualified options that do not meet the ents of that section. The Compensation Committee of our Board of Directors determines, es recommends to the Board: which of the eligible employees, non-employee directors, nts and advisors should receive equity awards; the terms, including any vesting periods or nce requirements of the awards; and the size of the awards. The non-employee members of d of Directors determine any award made to non-employee directors.

ose of the Plan is to encourage our employees, non-employee directors, consultants and to acquire an ownership interest in our common stock and to enable these individuals to enefits from an increase in the value of our common stock. We believe that this benefit these individuals with greater incentive to work to improve our business and encourages

tinued provision of services to us and, generally, promotes our interests and those of our
ders.

new shares and shares from treasury for shares delivered under the Plan. The parameters are repurchase activity are not established solely with reference to the dilutive impact of sued under the Plan. However, we expect that, over time, share purchases may partially dilutive impact of shares to be issued under the Plan.

num of 12.8 million shares were authorized for awards under our plans. As of June 30,) million shares of common stock remained available for possible future issuance under our r the impact of approximately 0.4 million shares of equity based performance units.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ary of information with respect to share-based compensation expense included in our ated Statements of Income are as follows, for the fiscal years ended June 30:

	2009	2008	2007
general and administrative	$ 12.1	$ 10.2	$ 9.3
and development	5.8	4.9	3.0
roduct sales	0.1	0.1	0.1
sed compensation expense included in pre-tax income	18.0	15.2	12.4
ax benefit related to share-based compensation	(6.8)	(5.8)	(4.7)
sed compensation expense included in net income	$ 11.2	$ 9.4	$ 7.7
arnings per share impact of share-based compensation	$ 0.19	$ 0.16	$ 0.13

tions

to the Plan, for stock options, the exercise price per share with respect to each option is ned by the Compensation Committee and is not less than the fair market value of our stock on the date on which the stock option is granted. The Plan has a term of 10 years, rminated earlier, and stock options granted under the Plan prior to December 2006 have to 10 years, whereas stock options granted under the Plan beginning in December 2006 ns up to 7 years. Vesting generally occurs equally over one to four years on the grant-date ary. Compensation expense is recognized on a straight-line basis over the requisite service or each separately vesting portion of the award. On occasion, we may issue stock options nediately vest, in which case compensation expense equal to the total fair value of the rant is immediately recognized. For options granted in fiscal 2009, the range in fair value n $6.71 $11.41 per share based on the Black-Scholes calculation using the following range ptions depending on the characteristics of the option grant: risk-free interest rates between 2.80%; expected life between 4.50 4.75 years; expected volatility of 0.39; and 0.0% yield. Stock option activity was as follows for fiscal 2009:

	Number of Stock Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(1)

			(in years)	
tions outstanding at June 30, 2008	4.6	$ 20.53		
	1.2	27.30		
d	(0.5)	16.74		
r Cancelled				
tions outstanding at June 30, 2009	5.3	$ 22.37	5.4	$ 49.1
tions exercisable at June 30, 2009	3.2	$ 19.49	5.0	$ 38.4

ic value is defined as the amount by which the fair value of the underlying stock exceeds the exercise
f a stock option.

F-28

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ormation pertaining to stock options was as follows for the years ended June 30:

	2009	2008	2007
ghted average grant-date fair value per share of stock ons granted	$ 9.83	$ 10.73	$ 8.40
al grant-date fair value of stock options vested	7.4	8.3	7.9
al intrinsic value of stock options exercised	7.8	23.4	23.0

l 2009, 2008 and 2007, cash received from the exercise of stock options was $7.9 million, llion and $26.7 million, respectively, and the income tax benefit realized from exercise of tions was $2.8 million, $8.8 million and $8.9 million, respectively. As of June 30, 2009, s $10.0 million of total stock option compensation expense related to non-vested stock ot yet recognized, which is expected to be recognized over a weighted average period of .

2005, our Board of Directors approved a Director Emeritus Program for directors who e 75 or have served on the Board of Directors for at least 20 years. The Director Emeritus is being phased in to maintain continuity and avoid losing the benefit of valuable ce. For fiscal 2008 and 2007, 37,500 and 37,500, respectively, fully vested five-year stock were issued to two directors emeritus upon their retirement from the Board. No directors fiscal 2009.

d Stock Awards Grants

e recommendation of our Compensation Committee, our Board of Directors has, on , granted restricted stock, restricted stock units, and performance based restricted stock certain employees, non-employees, and directors to motivate them to devote their full to our success, to reward them for their services and to align their interests with the of our stockholders.

e Plan, participants may be granted restricted stock awards, representing an unfunded, d right, which is nontransferable except in the event of death of the participant, to receive f our common stock on the date specified in the participant s award agreement. The l stock awards granted under this plan are subject to vesting generally from a range of two ears on the grant-date anniversary. Compensation expense is recognized on a straight-line

er the vesting period for the entire award. Restricted stock share and restricted stock unit
vas as follows for fiscal 2009:

	Restricted Stock Shares	Weighted Average Grant-Date Fair Value(1)
vested balance at June 30, 2008	0.3	$ 27.60
nted	0.1	29.35
ted	(0.1)	29.03
vested balance at June 30, 2009	0.3	$ 27.53

F-29

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Restricted Stock Units (including Performance -based Stock Units)	Weighted Average Grant-Date Fair Value(1)
vested balance at June 30, 2008	0.1	$ 25.31
nted	0.2	29.35
ted		
vested balance at June 30, 2009	0.3	$ 28.53

tricted stock, grant-date fair value is equal to the closing market price of a share of our common stock grant date.

ne 30, 2009, there was $10.4 million of total restricted stock award compensation expense o nonvested awards not yet recognized, which is expected to be recognized over a weighted period of 2.4 years.

ased Performance Units

ne 30, 2009, we had 385,349 equity-based performance units outstanding with a weighted grant-date fair value per unit of $23.92. The equity-based performance units contain ance goals set by the Board of Directors based on certain performance criteria over the g periods: thirty-six month period ending June 30, 2009 for 177,400 units; thirty-six month nding June 30, 2010 for 89,911 units; and thirty-six month period ending June 30, 2011 for units. The number of shares of stock to be awarded to participants is dependent upon the nent of the performance goals and the extent to which each goal is achieved or exceeded, a minimum threshold performance before any shares are issued and can result in shares o to 200% of the targeted number of shares under each grant. In fiscal 2009, 2008 and 2007 rded a provision for equity-based performance units outstanding of $3.4 million, $2.7 nd zero, respectively that relate to the thirty-six month periods ended June 30, 2009, 2010 1 based on the current assessment of achievement of the performance goals. Additional will be recorded in future periods depending on the assessment of achievement of the nce goals.

	Equity-based Performance Units	Weighted Average Grant-Date Fair Value(1)
vested balance at June 30, 2008	0.3	$ 21.52
nted	0.1	29.35
ted		
vested balance at June 30, 2009	0.4	$ 23.92

uity-based performance units, grant-date fair value is equal to the closing market price of a share of mmon stock on the grant date.

Stock

2005, non-management members of the Board of Directors were awarded an aggregate of nits of deferred stock under the Plan, of which 24,890 units remain outstanding as of 2009. The deferred stock units vested immediately and shares of our common stock will be pon each director s departure from the Board, assuming proper notice from the Board Grantees are not entitled to vote their deferred stock units or to receive cash dividends, but entitled to receive make whole payments on any declared and paid dividends on our stock.

F-30

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

s

2004, our Board of Directors, as part of the inducement to Hasbro to extend their license nt with us, approved a grant of warrants to purchase 375,000 shares of our common stock $3.9 million using the Black-Scholes pricing model and certain assumptions at the date of the 2003 Warrants. The warrants exercise price is $23.36 per share of our common stock, o adjustment. The warrants are non-cancelable and vest with respect to 20% of the ng shares in each year commencing on January 1, 2007 until fully vested on January 1, bject to earlier vesting under specified circumstances. The warrants were to expire on er 14, 2013.

009, we entered into a new Gaming Device License Agreement (the 2009 License) with whereby we agreed to license certain intellectual property and proprietary rights owned or ed by Hasbro. As part of the inducement to Hasbro to enter into the 2009 License, our f Directors approved an amendment (the Warrant Modification Agreement) to the 2003 s to purchase our common stock. The Warrant Modification Agreement provides that the he 2003 Warrants will be extended until December 31, 2018. In addition, the expiration the 2003 Warrants will be extended for three years if we elect to extend the 2009 The 2003 Warrants are 60% vested. We accounted for the extension of the 2003 Warrants dification of terms in accordance with SFAS No. 123R whereby we computed the ntal compensation cost of the modification comparing the fair value of the modified to the fair value of the original warrants immediately before its terms were modified. The tal fair value using the Black-Scholes model was $4.76 per share for a total of $1.8 million l compensation cost which will be amortized over the extended license period.

connection with the 2009 License, our Board of Directors approved a new grant of a to purchase up to 500,000 shares of our common stock (the 2009 Warrants). The 2009 s exercise price is $30.03 per share of our common stock (the closing price on June 11, e date of grant), subject to adjustment. The 2009 Warrants will only vest if certain ns are met: (1) we request Hasbro s consent to an assignment of the 2009 License upon the ing of certain transactions by us, and Hasbro gives its consent to such assignment, and transaction is effected. Each year that the three conditions are not met the number of shares o the 2009 Warrant decrease; provided however, that the number of underlying shares will ss than 375,000 shares. If not vested and exercised, the 2009 Warrants will expire on er 31, 2018. We may also elect to extend the 2009 License for a period of three years from er 31, 2018 if certain conditions are satisfied.

iscal 2009, 2008 and 2007, we recognized $0.5 million of expense respectively for the the 2003 Warrants and the modification thereof.

e Stock Purchase Plan

e July 1, 2009, we adopted an Employee Stock Purchase Plan (ESPP) as defined under 423 of the Internal Revenue Code allowing eligible employees to elect to make tions through payroll deductions which will be used to purchase our common stock at a price equal to 85% of the fair value of a share of common stock on the date of purchase. served under the ESPP are 500,000.

F-31

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

IMITMENTS, CONTINGENCIES AND INDEMNIFICATIONS

inimum rental commitments under non-cancelable operating leases were as follows as of 2009:

0	$ 4.6
1	4.0
2	3.8
3	3.7
4	3.4
reafter	4.7
	$ 24.2

pense for fiscal 2009, 2008 and 2007 was $4.9 million, $3.9 million and $4.5 million, vely. We include stated scheduled rent increases in calculating future minimum lease s under non-cancellable operating leases and the minimum lease payments are recognized xpense on a straight-line basis over the minimum lease term. We have an option to the facility that we rent in Las Vegas, NV which, if we elected to exercise, would occur May and November of 2010 or in May 2012.

nely enter into license agreements with others for the use of brands, intellectual properties nologies in our products. These agreements generally provide for royalty advances and fee payments when the agreements are signed and minimum commitments which are ble in certain circumstances.

009, we entered into the 2009 License with Hasbro to license certain intellectual property rietary rights owned or controlled by Hasbro in titles, such as *MONOPOLY*, *BATTLESHIP* *E*, for use in our chance-based electronic gaming machines. The 2009 License, which is nable without Hasbro s consent, is effective April 1, 2009 and has an initial term through er 31, 2016. We have the right to extend the 2009 License for an additional three-year term n conditions are satisfied. We are required to make minimum annual guaranteed royalty s during the term of the 2009 License. See Note 12, Equity Compensation Plan Warrants er information.

30, 2009, we had total royalty and license fee commitments, advances and payments made
ntial future royalty and license fee payments as follows:

	Minimum Commitments
al royalty and license fee commitments, including contingent ments of $2.3 million	$ 232.1
ances and payments made	(119.4)
ential future payments, including contingent payments of $2.3 ion	$ 112.7

l potential royalty and license fee commitments increased to $112.7 million at June 30, m $21.0 million at June 30, 2008, due to new agreements we entered into for brand and gy licenses partially offset by advances and payments made on existing commitments. royalty and license fee commitments could increase in the future as we enter into new ual property, technology or brand licensing agreements. See Note 7, Intangible Assets for d assets that are recorded on our Consolidated Balance Sheets.

F-32

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ne 30, 2009, we estimate that potential future royalty payments in each fiscal year will be as

		Minimum Commitments
0	$	14.6
1		14.3
2		15.3
3		16.0
4		16.3
reafter		36.2
l	$	112.7

celable raw materials purchase orders increased to $18.5 million as of June 30, 2009 from ion as of June 30, 2008, due to our commitment to a last time buy on a particular computer l in a large portion of our current gaming machines.

performance bonds outstanding of $1.0 million at June 30, 2009, to one customer, related ct sales, and we are liable to the issuer in the event of exercise due to our non-performance e contract. Events of non-performance do not include the financial performance of our

fications

agreements in which we may be obligated to indemnify other parties with respect to matters. Generally, these indemnification provisions are included in sales orders and nts arising in the normal course of business under which we customarily agree to hold the fied party harmless against claims arising from a breach of representations related to uch as title to assets sold and licensed, defective equipment or certain intellectual property ayments by us under such indemnification provisions are generally conditioned on the other king a claim. Such claims are typically subject to challenge by us and to dispute resolution es specified in the particular sales order or contract. Further, our obligations under these nts may be limited in terms of time and/or amount and, in some instances, we may have against third parties. It is not possible to predict the maximum potential amount of future s under these indemnification agreements due to the conditional nature of the obligations

unique facts of each particular agreement. Historically, we have not made any payments
ese agreements that have been material individually or in the aggregate. As of June 30,
e were not aware of any obligations arising under indemnification agreements that would
naterial payments, except for the matter disclosed in Note 14, Litigation.

agreements with our directors and certain officers that require us, among other things, to
fy them against certain liabilities that may arise by reason of their status or service as
or officers. We have also agreed to indemnify certain former officers and directors of
companies. We maintain director and officer insurance, which may cover our liabilities
rom these indemnification obligations in certain circumstances. As of June 30, 2009, we
aware of any obligations arising under these agreements that would require material
s.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Purpose Entities and Derivative Instruments

ot have any special purpose entities for investment or the conduct of our operations. We entered into any derivative financial instruments, although we have granted stock options, l stock, equity based performance units and deferred stock units to our employees, officers, and consultants and warrants to a licensor, and we have issued convertible subordinated

f Credit

ing letters of credit issued under our line of credit to ensure payment to certain vendors and ent agencies totaled $0.9 million at June 30, 2009.

censor Arrangements

s agreements that include software and intellectual property licensing arrangements provide whereby WMS indemnifies the third-party licensee against liability and damages g legal defense costs) arising from any claims of patent, copyright, trademark, or trade fringement. Should such a claim occur, we could be required to make payments to the for any liabilities or damages occurred. Historically, we have not incurred any significant to the infringement claims. As we consider the likelihood of incurring future costs to be no liability has been incurred.

rance

elf-insured for various levels of workers compensation, electronic errors and omissions automobile collision insurance, as well as employee medical, dental, prescription drug and coverage. We purchase stop-loss coverage to protect against significant claims. Accrued e claims and reserves include estimated settlements for known claims, and estimates of curred but not reported.

Warranty

rally warrant our new gaming machines sold in the U.S. for a period of 90 days, while we warrant our gaming machines sold internationally for a period of 180 days to one year. anty costs have not been significant.

GATION

ber 2, 2003, La Societe de Loteries du Quebec (Loto-Quebec) filed claims against us and ottery Consultants Inc., a subsidiary of IGT (VLC) in the Superior Court of the Province of Quebec City District (200-06-000017-015). The pleadings allege that Loto-Quebec would ed to be indemnified by the manufacturers of Loto-Quebec s VLTs, specifically WMS and the class action plaintiffs, described below, are successful in the pending class action against Loto-Quebec. In July 2008, we entered into a settlement agreement with ebec under which Loto-Quebec agreed to suspend the action in warranty against us in e for our agreement to continue cooperating with the defense of the class action lawsuit oto-Quebec and, in the event of an adverse outcome in such lawsuit against Loto-Quebec, tion of any warranty claim by Loto-Quebec. The settlement agreement reserves all of our against Loto-Quebec.

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

s action lawsuit discussed in Loto-Quebec s claim was brought on May 18, 2001 against ebec in the Superior Court of the Province of Quebec. It alleges that the members of the veloped a pathological gambling addiction by using Loto-Quebec s VLTs and that ebec, as owner, operator and distributor of VLTs, failed to warn players of the alleged associated with VLTs. Spielo Manufacturing Inc., another manufacturer of VLTs, ly intervened to support Loto-Quebec s position. Class status was granted by the Court on 2002, authorizing Jean Brochu to act as the representative plaintiff. The class, which is y undetermined, but potentially comprising more than 119,000 members, is requesting totaling almost $700 million Canadian dollars, plus interest. The trial began in September is too early to assess the outcome of these actions and to determine whether any further l be pursued by Loto-Quebec under the terms of our settlement agreement.

nber 2008, we settled a trademark lawsuit against a third party for a cash payment to us in unt of $5.0 million, which is included in the Interest income and other, net line in our ated Statements of Income for the year ended June 30, 2009.

ORMATION ON GEOGRAPHIC AREAS

s derived from customers in the United States and Canada accounted for approximately % and 75% of our total revenues for the fiscal years ended June 30, 2009, 2008 and 2007, vely. United States and Canada had more than 90% of our total long-lived assets as of 2009, 2008 and 2007. No other country in which we conduct business had greater than ur total revenues or long-lived assets for the periods presented.

hic revenue information is determined by country of destination. Our operations outside the tates include: gaming operations equipment located in Canada, Europe and South Africa; l distribution offices in Argentina, Austria, Canada, China, Italy, the Netherlands, South pain and the United Kingdom; and game development studios in Australia, the Netherlands United Kingdom. Substantially all of our revenues from customers outside the United States ominated in U.S. dollars. At June 30, 2009 and 2008 approximately 41% and 25% ely, of total current and long term trade accounts and notes receivable were from customers utside of United States and Canada.

IREMENT PLANS

sor 401(k) defined contribution plans within the United States. The plans cover full-time
es and provide for our contributions of up to 4.5% of covered employees compensation as
n the plan. We also provide a deferred compensation plan within the United States to
ey employees. Our expense for these two plans totaled $4.4 million, $3.7 million and $2.6
n fiscal 2009, 2008 and 2007, respectively.

two frozen defined benefit pension plans related to previously discontinued operations.
expense for these plans was not significant in the aggregate. In September 2006, the FASB
SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other*
ement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158).
ement requires an employer to recognize the over-funded or under-funded status of a
benefit and postretirement plan as an asset or liability in its statement of financial position
ecognize changes in that funded status in the year in which the changes occur through
ensive income. The adoption of SFAS No. 158 had no material effect on our net income or
ys.

F-35

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

PLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

al cash flow information was as follows for the fiscal years ended June 30:

	2009	2008	2007
axes paid	$ 45.5	$ 21.9	$ 15.5
paid	3.7	3.4	3.4
operations equipment transferred to inventory	1.6	1.9	4.4

RICANE DAMAGE

r both property and business interruption insurance. We incurred damages to our leased n Gulfport, Mississippi in August 2005 which was covered by our property insurance, after ctible. We began litigation relating to our business interruption claims against the insurance r in the Mississippi courts in the September 2006 quarter and the trial occurred in March n August 4, 2009, we received a judgment in our favor but based on the court s ation of the policy, only nominal damages were awarded to us. This judgment will have no impact on our Consolidated Financial Statements.

RTERLY FINANCIAL INFORMATION (UNAUDITED)

zed quarterly financial information is as follows for fiscal 2009 and 2008:

	Sept. 30 2008	Dec. 31 2008	Mar. 31 2009	Jun. 30 2009
09 Quarters				
s	$ 151.4	$ 178.4	$ 180.8	$ 195.8
ofit, excluding depreciation expense	95.6	109.6	117.3	126.4
me	15.7	23.7	24.4	28.4
per share:				
	$ 0.31	$ 0.48	$ 0.50	$ 0.58

	$ 0.27	$ 0.41	$ 0.43	$ 0.49
d-average common shares:				
mmon stock	49.9	49.3	48.8	48.8
ommon stock and common stock equivalents	60.0	58.9	58.2	59.0

	Sept. 30 2007	Dec. 31 2007	Mar. 31 2008	Jun. 30 2008
08 Quarters				
s	$ 132.5	$ 159.2	$ 172.8	$ 185.6
ofit, excluding depreciation expense	79.6	93.5	101.4	111.7
me	11.1	16.0	18.8	21.6
per share:				
	$ 0.22	$ 0.32	$ 0.37	$ 0.43
	$ 0.19	$ 0.27	$ 0.32	$ 0.36
d-average common shares:				
mmon stock	49.8	50.2	50.5	50.5
ommon stock and common stock equivalents	60.8	61.0	60.9	60.8

f Contents

WMS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ember 2008 quarter includes a $3.1 million after-tax gain or $0.05 per diluted share, related settlement of trademark litigation.

ember 2008 quarter includes a $1.4 million or $0.02 per diluted share benefit related to the f January 1, 2008 through September 30, 2008 due to the retroactive reinstatement of the and development tax credit legislation.

2008 quarter includes a $2.3 million after-tax, or $0.04 per diluted share, impact to write net realizable value a licensed technology.

f Contents

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years Ended June 30, 2009, 2008 and 2007

(in millions of U.S. dollars)

Column A	Column B	Column C Additions		Column D Deductions	Column E
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Amounts Written off or Reclassified	Balance at End of Period
ce for total accounts and eivables:					
	$ 3.0	$ 7.1	$	$ 4.8	$ 5.3
	$ 2.5	$ 3.5	$	$ 3.0	$ 3.0
	$ 2.6	$ 1.7	$	$ 1.8	$ 2.5

F-38

f Contents

SIGNATURES

to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as , the Registrant has duly caused this Report to be signed on its behalf by the undersigned, duly authorized, on the 27th day of August, 2009.

WMS INDUSTRIES INC.

By: /s/ BRIAN R. GAMACHE
Brian R. Gamache
Chairman of the Board & Chief Executive Officer

to the requirements of the Securities Exchange Act of 1934, as amended, this Report has y signed below by the following persons on behalf of the Registrant and in the capacities e dates indicated.

Signature	Positions	Date
BRIAN R. GAMACHE **Brian R. Gamache**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	August 27, 2009
OTT D. SCHWEINFURTH **ott D. Schweinfurth**	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	August 27, 2009
N P. MCNICHOLAS, JR. **an P. McNicholas, Jr.**	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	August 27, 2009
LOUIS J. NICASTRO **Louis J. Nicastro**	Founding Director	August 27, 2009
WARD W. RABIN, JR. **lward W. Rabin, Jr.**	Lead Director	August 27, 2009
AROLD H. BACH, JR. **Harold H. Bach, Jr.**	Director	August 27, 2009
ROBERT J. BAHASH **Robert J. Bahash**	Director	August 27, 2009
ATRICIA M. NAZEMETZ	Director	August 27, 2009

atricia M. Nazemetz		
NEIL D. NICASTRO	Director	August 27, 2009
Neil D. Nicastro		
IRA S. SHEINFELD	Director	August 27, 2009
Ira S. Sheinfeld		
BOBBY L. SILLER	Director	August 27, 2009
Bobby L. Siller		
LLIAM J. VARESCHI, JR.	Director	August 27, 2009
lliam J. Vareschi, Jr.		