

WMS INDUSTRIES INC /DE/  
Form 10-Q  
November 08, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010**

**OR**

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

Commission file number: 1-8300

**WMS INDUSTRIES INC.**

(Exact name of registrant as specified in its Charter)

**Delaware**  
(State or other Jurisdiction of  
incorporation or organization)

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

**800 South Northpoint Blvd.**

**Waukegan, IL 60085**

(Address of Principal Executive Offices)

**(847) 785-3000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files.) Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 57,770,804 shares of common stock, \$0.50 par value, were outstanding at November 2, 2010.

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**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WMS INDUSTRIES INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three Months Ended September 30, 2010 and 2009****(in millions of U.S. dollars and millions of shares, except per share amounts)****(Unaudited)**

	<b>2010</b>	<b>2009</b>
<b>REVENUES:</b>		
Product sales	\$ 111.2	\$ 88.8
Gaming operations	76.3	76.5
<b>Total revenues</b>	<b>187.5</b>	<b>165.3</b>
<b>COSTS AND EXPENSES:</b>		
Cost of product sales(1)	57.1	41.8
Cost of gaming operations(1)	14.5	14.2
Research and development	28.7	26.5
Selling and administrative (see Note 3)	42.1	34.0
Depreciation(1)	15.8	17.3
<b>Total costs and expenses</b>	<b>158.2</b>	<b>133.8</b>
<b>OPERATING INCOME</b>	<b>29.3</b>	<b>31.5</b>
Interest expense	(0.4)	(2.0)
Interest income and other income and expense, net	1.5	1.9
Income before income taxes	30.4	31.4
Provision for income taxes	10.9	11.6
<b>NET INCOME</b>	<b>\$ 19.5</b>	<b>\$ 19.8</b>
<b>Earnings per share:</b>		
Basic	\$ 0.33	\$ 0.40
Diluted	\$ 0.33	\$ 0.34
<b>Weighted-average common shares:</b>		
Basic common stock outstanding	58.2	50.0
Diluted common stock and common stock equivalents	59.6	60.1

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

Cost of product sales	\$ 1.2	\$ 1.1
Cost of gaming operations	\$ 9.5	\$ 11.8

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

**Table of Contents****WMS INDUSTRIES INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

September 30, 2010 and June 30, 2010

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

	September 30, 2010 (unaudited)	June 30, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 104.5	\$ 166.7
Restricted cash and cash equivalents	18.0	17.9
<b>Total cash, cash equivalents and restricted cash</b>	<b>122.5</b>	<b>184.6</b>
Accounts and notes receivable, net	260.7	274.5
Inventories	64.5	57.8
Other current assets	37.8	38.1
<b>Total current assets</b>	<b>485.5</b>	<b>555.0</b>
<b>NON-CURRENT ASSETS:</b>		
Gaming operations equipment, net of accumulated depreciation of \$252.1 and \$247.2, respectively	76.5	64.7
Property, plant and equipment, net of accumulated depreciation of \$101.3 and \$95.4, respectively	197.5	189.8
Intangible assets, net	100.0	99.1
Deferred income tax assets	31.0	33.4
Other assets, net	80.1	65.0
<b>Total non-current assets</b>	<b>485.1</b>	<b>452.0</b>
<b>TOTAL ASSETS</b>	<b>\$ 970.6</b>	<b>\$ 1,007.0</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 59.6	\$ 63.4
Accrued compensation and related benefits	11.7	25.1
Other accrued liabilities	49.8	52.3
<b>Total current liabilities</b>	<b>121.1</b>	<b>140.8</b>
<b>NON-CURRENT LIABILITIES:</b>		
Deferred income tax liabilities	20.6	20.1
Other non-current liabilities	12.3	12.2
<b>Total non-current liabilities</b>	<b>32.9</b>	<b>32.3</b>
Commitments, contingencies and indemnifications (see Note 12)	0.0	0.0
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock (5.0 shares authorized; none issued)	0.0	0.0

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Common stock (200.0 shares authorized; 59.7 shares issued)	29.8	29.8
Additional paid-in capital	429.9	435.5
Treasury stock, at cost (1.9 and 0.9 shares, respectively)	(72.5)	(34.3)
Retained earnings	428.5	409.0
Accumulated other comprehensive income	0.9	(6.1)
<b>Total stockholders equity</b>	816.6	833.9
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	\$ 970.6	\$ 1,007.0

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

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

For the Three Months Ended September 30, 2010 and 2009

(in millions of U.S. dollars)

(Unaudited)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 19.5	\$ 19.8
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	15.8	17.3
Amortization of intangible and other assets	5.3	5.2
Share-based compensation	5.1	4.7
Other non-cash items	4.5	0.8
Deferred income taxes	3.0	0.4
Tax benefit from the exercise of stock options	(1.2)	(11.7)
Change in operating assets and liabilities	(32.6)	(46.0)
<b>Net cash provided by (used in) operating activities</b>	<b>19.4</b>	<b>(9.5)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(16.4)	(11.6)
Additions to gaming operations equipment	(22.9)	(10.6)
Payments to acquire or license intangible and other assets	(0.6)	(1.4)
<b>Net cash used in investing activities</b>	<b>(39.9)</b>	<b>(23.6)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from exercise of stock options	2.9	26.1
Tax benefit from exercise of stock options	1.2	11.7
Purchase of treasury stock Purchases of treasury stock	(46.4)	0.0
Debt issuance costs	0.0	(1.6)
Other	0.0	(0.7)
<b>Net cash provided by (used in) financing activities</b>	<b>(42.3)</b>	<b>35.5</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>0.6</b>	<b>0.2</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(62.2)</b>	<b>2.6</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>166.7</b>	<b>135.7</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 104.5</b>	<b>\$ 138.3</b>

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



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**WMS INDUSTRIES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Unaudited)**

**1. BASIS OF PRESENTATION AND BUSINESS OVERVIEW**

The accompanying unaudited interim Condensed Consolidated Financial Statements of WMS Industries Inc. ( WMS , we , us or the Company ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles ( U.S. GAAP ) for complete financial statements. The accompanying Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 2010 included in our Annual Report on Form 10-K filed with the SEC on August 26, 2010. The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods.

Sales of our gaming machines to casinos are generally strongest in the spring and slowest in the summer months, while gaming operations revenues are generally strongest in the spring and summer. Typically our total revenues are lowest in the September quarter and build in each subsequent quarter with the June quarter generating our highest total quarterly revenues. In addition, quarterly revenues and net income may increase when we receive a larger number of approvals for new games from regulators than in other quarters, when a game or platform that achieves significant player appeal is introduced, if a significant number of new casinos open or existing casinos expand or if gaming is permitted in a significant new jurisdiction. Operating results for the three months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ended June 30, 2011. For further information refer to our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

We are engaged in one business segment: to serve the legalized gaming industry by designing, manufacturing and distributing games, video and mechanical reel-spinning gaming machines and video lottery terminals ( VLTs ) to authorized customers in legal gaming venues worldwide. We have a production facility in the United States with development and distribution offices located in the United States, Argentina, Australia, Austria, Canada, China, India, Mexico, the Netherlands, South Africa, Spain and the United Kingdom.

We market our gaming machines in two principal ways. First, product sales include the sale to casinos and other gaming machine operators of new and used gaming machines and VLTs, conversion kits (including game, hardware or operating system conversions), parts, amusement-with-prize gaming machines and gaming related systems for smaller international casino operators. Second, we license our game content and intellectual property to third parties for distribution and we lease gaming machines and VLTs to casinos and other licensed gaming machine operators for payments based upon (1) a percentage of the amount wagered, called coin in or a combination of a fixed daily fee and a percentage of the amount wagered, (2) a percentage of the net win, which is the earnings generated by casino patrons playing the gaming machine, or (3) fixed daily fees. The installed base of our participation gaming machines consists of: wide-area progressive ( WAP ) participation gaming machines; local-area progressive ( LAP ) participation gaming machines; and stand-alone participation gaming machines. We also enter into leases for casino-owned daily fee games and gaming machine, VLT and other leases. We refer to WAP, LAP and stand-alone participation gaming machines as participation games and when combined with casino-owned daily fee games, royalties we receive under license agreements with third parties to utilize our game content and intellectual property, and gaming machine, VLT and other lease revenues, we refer to this business as our gaming operations.

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



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**WMS INDUSTRIES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Unaudited)**

**2. PRINCIPAL ACCOUNTING POLICIES**

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

We carry our accounts and notes receivable at face amounts less an allowance for doubtful accounts. On a quarterly basis, we evaluate our receivables and establish the allowance for doubtful accounts. We consider a variety of factors in this evaluation, including the receivables aging and trends thereof for cust