

CHINA FIRE & SECURITY GROUP, INC.
Form SC 13E3/A
August 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13E-3

(Amendment No. 3)

(Rule 13e-100)

Transaction Statement Under Section 13(e) of the Securities
Exchange Act of 1934 and Rule 13e-3 Thereunder

Rule 13e-3 Transaction Statement under
Section 13(e) of the Securities Exchange Act of 1934

CHINA FIRE & SECURITY GROUP, INC.

(Name of the Issuer)

China Fire & Security Group, Inc.

Amber Parent Limited

Amber Mergerco, Inc.

Li Brothers Holdings Inc.

Jin Zhan Limited

Vyle Investment Inc.

Small Special Technology Inc.

Weigang Li

Brian Lin

Weishe Zhang

(Names of Person(s) Filing Statement)

Bain Capital Asia Integral Investors, L.P.

Bain Capital Investors, LLC

Bain Capital Asia Fund, L.P.

Bain Capital Fund X, L.P.

Bain Capital Partners Asia, L.P.

Bain Capital Partners X, L.P.

(Names of Filing Person(s) (Other Person(s)))

Common Stock, par value \$0.001 per share

(Title of Class of Securities)

90915 R 105

(CUSIP Number of Class of Securities)

Brian Lin

c/o China Fire & Security Group, Inc.

South Banbidian Industrial Park

Liqiao Township, Shunyi District

Beijing, 101304

People's Republic of China

Sean Doherty

Amber Parent Limited

Amber Mergerco, Inc.

Bain Capital Asia Integral Investors, L.P.

Bain Capital Investors, LLC

Bain Capital Asia Fund, L.P.

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Bain Capital Fund X, L.P.

Bain Capital Partners Asia, L.P.

Bain Capital Partners X, L.P.

c/o Bain Capital Partners, LLC

111 Huntington Avenue

Boston, Massachusetts 02199

Telephone: +1 617 516 2000

Weigang Li

Weigang Li

Brian Lin

c/o Li Brothers Holdings Inc.

c/o Jin Zhan Limited

c/o Vyle Investment Inc.

P.O. Box 3321

P.O. Box 957

Pasea Estate

Drake Chambers

Offshore Incorporations Centre

Road Town, Tortola

Road Town, Tortola

Road Town, Tortola

British Virgin Islands

British Virgin Islands

British Virgin Islands

Weishe Zhang

Weigang Li

c/o Small Special Technology Inc.

Brian Lin

Morgan & Morgan Building

Weishe Zhang

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(Name, Address and Telephone Number of Person Authorized to Receive

Notices and Communications on Behalf of the Persons Filing Statement)

With copies to:

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This statement is filed in connection with (check the appropriate box):

a. The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Exchange Act of 1934.

b. The filing of a registration statement under the Securities Act of 1933.

c. A tender offer.

d. None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

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Check the following box if the filing is a final amendment reporting the results of the transaction:

Calculation of Filing Fee

Transaction Valuation*
\$265,584,025

Amount Of Filing Fee**
\$30,834.31

*Estimated for purposes of calculating the amount of filing fee only. The proposed maximum aggregate transaction value for purposes of calculating the filing fee is \$265,584,025. The maximum aggregate transaction value was calculated based upon the sum of (A) (1) 28,640,321 shares of common stock (including shares of restricted stock) issued and outstanding and owned by persons other than the Company, Parent and Merger Sub on June 8, 2011, multiplied (2) by \$9.00 per share (the *per share merger consideration*) and (B) (1) 1,731,220 shares of common stock underlying outstanding options of the Company with an exercise price of \$6.81 or less, as of June 8, 2011, multiplied by (2) the excess of the per share merger consideration over the weighted average exercise price of \$4.48. The filing fee equals the product of 0.0001161 multiplied by the maximum aggregate value of the transaction.

**The amount of filing fee, calculated in accordance with Rule 0-11 of the Securities Exchange Act of 1934, as amended, and Fee Rate Advisory No. 5 for Fiscal Year 2011 issued by the Securities and Exchange Commission, is calculated by multiplying the transaction valuation by 0.0001161.

x Check the box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: \$30,834.31
Form or Registration No.: Schedule 14A-Preliminary Proxy Statement
Filing Party: China Fire & Security Group, Inc.
Date Filed: June 10, 2011

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

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INTRODUCTION

This Rule 13E-3 transaction statement on Schedule 13E-3, together with the exhibits hereto (this **Schedule 13E-3** or **Transaction Statement**) is being filed with the Securities and Exchange Commission (the **SEC**) pursuant to Section 13(e) of the Securities Exchange Act of 1934, as amended (the **Exchange Act**) jointly by the following persons (each, a **Filing Person**, and collectively, the **Filing Persons**): China Fire & Security Group, Inc., a Florida corporation (the **Issuer** or the **Company**), Amber Parent Limited, an exempted company incorporated in the Cayman Islands (**Parent**), Amber Mergerco, Inc., a Florida corporation (**Merger Sub**) and a wholly-owned subsidiary of Parent, Li Brothers Holdings Inc., a British Virgin Islands corporation (**Li Brothers**), Jin Zhan Limited, an exempted company incorporated in the British Virgin Islands (**Jin Zhan**), Vyle Investment Inc., a British Virgin Islands corporation (**Vyle Investment**), Small Special Technology Inc., a British Virgin Islands corporation (**Small Special**), Bain Capital Asia Integral Investors, L.P., a Cayman Islands limited partnership (**Asia Integral**), Bain Capital Investors, LLC, a Delaware limited liability company (**Bain Capital**), Bain Capital Asia Fund, L.P., a Cayman Islands limited partnership, Bain Capital Fund X, L.P., a Cayman Islands limited partnership, Bain Capital Partners Asia, L.P., a Cayman Islands limited partnership, Bain Capital Partners X, L.P., a Cayman Islands limited partnership, Mr. Weigang Li, the Chairman of the board of directors of the Company, Mr. Brian Lin, the Chief Executive Officer and member of the board of directors of the Company, and Mr. Weishe Zhang, the Vice President of Strategic Planning and member of the board of directors of the Company. The class of equity securities to which this Transaction Statement relates is the Company's common stock, par value \$0.001 per share (the **Common Stock**).

On May 20, 2011, the Issuer entered into an Agreement and Plan of Merger (the **Merger Agreement**) with Parent and Merger Sub providing for the merger of Merger Sub with and into the Issuer, with the Issuer surviving the merger as a wholly-owned subsidiary of Parent (the **Merger**). Asia Integral, whose general partner is Bain Capital, owns all of the interests in Parent. Upon consummation of the Merger and pursuant to the Rollover Agreement (as defined below), Asia Integral will own approximately 75.8% of Parent and certain other persons will own approximately 24.2% of Parent. Concurrently with the filing of this Schedule 13E-3, the Issuer is filing with the SEC a preliminary Proxy Statement (the **Proxy Statement**) under Regulation 14A of the Exchange Act, relating to a special meeting of the shareholders of the Issuer at which the shareholders of the Issuer will consider and vote upon, among other things, a proposal to adopt the Merger Agreement. The approval of the Merger Agreement will require the affirmative vote of both (i) shareholders holding at least seventy-five percent (75%) of the outstanding shares of the Common Stock at the close of business on the record date and (ii) unaffiliated shareholders holding more than fifty percent (50%) of the outstanding shares of the Common Stock at the close of business on the record date (other than shares owned by the Rollover Investors (as defined below), the Voting Shareholders (as defined below), and/or any holders of Common Stock who have entered into voting agreements or other similar shareholder support agreements with Parent, Merger Sub or their affiliates following May 20, 2011, agreeing to vote in favor of the merger).

Concurrently with the execution and delivery of the Merger Agreement, each of Li Brothers, China Honour Investment Limited, an exempted company incorporated in the British Virgin Islands, Jin Zhan, Vyle Investment, Small Special, Mr. Weigang Li, Mr. Brian Lin and Mr. Weishe Zhang (collectively, the **Voting Shareholders**) entered into voting agreements (collectively, the **Voting Agreements**) with Parent and Merger Sub, pursuant to which the Voting Shareholders, from and after the date of the Merger Agreement and until the earlier of the effective time or the termination of the Merger Agreement pursuant to its terms, irrevocably and unconditionally granted to, and appointed Parent or its designee, such Voting Shareholder's proxy and attorney-in-fact, to vote or cause to be voted 16,789,100 shares of Common Stock and 127,500 shares of restricted stock owned by them, aggregating approximately 59.1% of the outstanding voting securities of the Company as of June 8, 2011, among other things, in favor of the approval of the Merger Agreement and the transactions contemplated by the Merger Agreement and against any acquisition proposal from any third party without regard to its terms. If for any reason the proxy granted therein is not irrevocable, the Voting Shareholders have also agreed to, among other things, to vote the shares of Common Stock and shares of restricted stock subject to the voting agreements in favor of the approval of the Merger Agreement and the transactions contemplated by the Merger Agreement, and against any acquisition proposal from any third party without regard to its terms.

Under the terms of the Merger Agreement, at the effective time of the Merger each outstanding share of Common Stock (other than as described below) will be converted automatically into the right to receive \$9.00 in cash (the **Per Share Merger Consideration**), without interest and less any applicable withholding taxes. Li Brothers is a special purpose company controlled in part and Jin Zhan is a special purpose company

controlled in full by Mr. Weigang Li, and Vyle Investment and Small Special are special purpose companies controlled in full by Mr. Brian Lin and Mr. Weishe Zhang, respectively (Li Brothers, Jin Zhan, Vyle Investment and Small Special collectively, the **Rollover Investors**). The Rollover Investors entered into a rollover agreement (the **Rollover Agreement**) with Parent and Merger Sub pursuant to which they have agreed to contribute to Parent a portion of the shares of Common Stock owned by them, aggregating approximately 19.9% of the outstanding shares of Common Stock as of June 8, 2011 (the **Rollover Shares**), in exchange for a certain equity interest in Parent at the same price per share as is paid by the shareholders of Parent affiliated with the Sponsors at closing. In addition, Li Brothers agreed to contribute an additional portion of the Common Stock owned by it representing approximately 4.3% of the outstanding shares of Common Stock as of June 8, 2011 (the **Cashed-Out Shares**) to Merger Sub in exchange for a per share amount equal to the Per Share Merger Consideration, which will be paid after the Company's shareholders generally receive their merger consideration. The surviving corporation is required to pay Li Brothers the consideration for the Cashed-Out Shares as soon as practicable following such time as it has funds sufficient to make such payment and to use its reasonable best efforts to make such payment within three months following the completion of the Merger. Shares of Common Stock

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owned by Parent or Merger Sub (including the Rollover Shares and the Cashed-Out Shares) will be canceled without payment based on the Per Share Merger Consideration. Shares of Common Stock owned by shareholders who have perfected and not withdrawn a demand for appraisal rights under the Florida Business Corporation Act (the "FBCA") will be canceled without payment based on the Per Share Merger Consideration and such shareholders will instead be entitled to appraisal rights under the FBCA. The Merger remains subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, including obtaining approval of the existing shareholders of the Company.

The cross-references below are being supplied pursuant to General Instruction G to Schedule 13E-3 and show the location in the Proxy Statement of the information required to be included in response to the items of Schedule 13E-3. Pursuant to General Instruction F to Schedule 13E-3, the information contained in the Proxy Statement, including all annexes thereto, is incorporated in its entirety herein by this reference, and the responses to each item in this Schedule 13E-3 are qualified in their entirety by the information contained in the Proxy Statement and the annexes thereto. As of the date hereof, the Proxy Statement is in preliminary form and is subject to completion or amendment. Capitalized terms used but not defined in this Schedule 13E-3 shall have the meanings given to them in the Proxy Statement.

All information contained in this Schedule 13E-3 concerning each Filing Person has been supplied by such Filing Person.

Item 1. Summary Term Sheet

The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

Item 2. Subject Company Information

(a) **Name and Address.** The information set forth in the Proxy Statement under the section entitled "SPECIAL FACTORS - The Parties" is incorporated herein by reference.

(b) **Securities.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

THE SPECIAL MEETING Record Date; Shareholders Entitled to Vote; Quorum

COMMON STOCK TRANSACTION INFORMATION

The exact title of each class of the subject equity securities is China Fire & Security Group, Inc. common stock, par value \$0.001 per share.

(c) **Trading Market and Price.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SPECIAL FACTORS Dividends

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MARKET PRICE AND DIVIDEND INFORMATION

(d) **Dividends.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SPECIAL FACTORS Dividends

MARKET PRICE AND DIVIDEND INFORMATION

(e) **Prior Public Offerings.** None.

(f) **Prior Stock Purchases.** The information set forth in the Proxy Statement under the section entitled COMMON STOCK TRANSACTION INFORMATION is incorporated herein by reference.

Item 3. Identity and Background of Filing Person

(a) **Name and Address.** The information set forth in the Proxy Statement under the section entitled SPECIAL FACTORS The Parties and Annex F is incorporated herein by reference.

(b) **Business and Background of Entities.** The information set forth in the Proxy Statement under the section entitled SPECIAL FACTORS The Parties and Annex F is incorporated herein by reference.

(c) **Business and Background of Natural Persons.** The information set forth in the Proxy Statement under the section entitled SPECIAL FACTORS The Parties and Annex F is incorporated herein by reference.

Item 4. Terms of the Transaction

(a)(1) **Material Terms Tender Offers.** Not applicable.

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(a)(2) **Material Terms Mergers or Similar Transactions.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

SPECIAL FACTORS Background of the Merger

SPECIAL FACTORS Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Approval of the Merger Agreement; Fairness of the Merger

SPECIAL FACTORS Purposes and Reasons of the Sponsors, Parent and Merger Sub for the Merger

SPECIAL FACTORS Purposes and Reasons of the Rollover Investors for the Merger

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

SPECIAL FACTORS Certain Material United States Federal Income Tax Consequences

THE SPECIAL MEETING Record Date; Shareholders Entitled to Vote; Quorum

THE SPECIAL MEETING Stock Ownership and Interests of Certain Persons

THE MERGER AGREEMENT

Annex A AGREEMENT AND PLAN OF MERGER

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(c) **Different Terms.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Certain Effects of the Merger

SPECIAL FACTORS Financing of the Merger

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

THE SPECIAL MEETING Stock Ownership and Interests of Certain Persons

THE MERGER AGREEMENT

Annex A AGREEMENT AND PLAN OF MERGER

(d) **Appraisal Rights.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

APPRAISAL RIGHTS

Annex C SECTIONS 607.1301-607.1333 OF THE FLORIDA BUSINESS CORPORATION ACT

(e) **Provisions for Unaffiliated Security Holders.** There are no provisions in connection with the Merger to grant unaffiliated security holders access to the corporate files of the Filing Persons or to obtain counsel or appraisal services at the expense of the Filing Persons.

(f) **Eligibility for Listing or Trading.** Not applicable.

Item 5. Past Contacts, Transactions, Negotiations and Agreements

(a) **Transactions.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Background of the Merger

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

THE MERGER AGREEMENT

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Annex A AGREEMENT AND PLAN OF MERGER

(b) **Significant Corporate Events.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Background of the Merger

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

THE MERGER AGREEMENT

Annex A AGREEMENT AND PLAN OF MERGER

(c) **Negotiations or Contacts.** The information set forth in the Proxy Statement under the section entitled SPECIAL FACTORS Background of the Merger is incorporated herein by reference.

(e) **Agreements Involving the Subject Company's Securities.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Background of the Merger

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

SPECIAL FACTORS Financing of the Merger

THE MERGER AGREEMENT

Annex A AGREEMENT AND PLAN OF MERGER

Annex D ROLLOVER AGREEMENT

Annex E FORM OF VOTING AGREEMENT

Item 6. Purposes of the Transaction and Plans or Proposals

(b) **Use of Securities Acquired.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Certain Effects of the Merger

SPECIAL FACTORS Plans for the Company

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THE MERGER AGREEMENT

Annex A AGREEMENT AND PLAN OF MERGER

(c)(1)-(8) **Plans.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Certain Effects of the Merger

SPECIAL FACTORS Plans for the Company

SPECIAL FACTORS Financing of the Merger

SPECIAL FACTORS Limited Guarantee

SPECIAL FACTORS Interests of the Company's Directors and Executive Officers in the Merger

SPECIAL FACTORS Dividends

SPECIAL FACTORS Delisting and Deregistration of the Company Common Stock

THE MERGER AGREEMENT

MARKET PRICE AND DIVIDEND INFORMATION

Annex A AGREEMENT AND PLAN OF MERGER

Annex D ROLLOVER AGREEMENT

Annex E FORM OF VOTING AGREEMENT

Item 7. Purposes, Alternatives, Reasons and Effects

(a) **Purposes.** The information set forth in the Proxy Statement under the following captions is incorporated herein by reference:

SUMMARY TERM SHEET

SPECIAL FACTORS Background of the Merger

SPECIAL FACTORS Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Approval of the Merger Agreement; Fairness of the Merger

SPECIAL FACTORS Purposes and Reasons of the Sponsors, Parent and Merger Sub for the Merger

SPECIAL FACTORS Purposes and Reasons of the Rollover Investors for the Merger

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SPECIAL FACTORS Plans for the Company

THE MERGER AGREEMENT

106,308

66,932
5,000

944,855
215,475
127,500

27,700
17,707
15,273

Scott D. Schweinfurth

Executive Vice President,

Chief Financial Officer and

Treasurer

2005
2004
2003

395,000
355,000
326,923
60,436

64,275
5,000

868,630
215,475

127,500

26,501

19,565

11,150

Seamus M. McGill

Executive Vice President and

Managing Director, International

Operations of WMS Gaming Inc.

2005

2004

2003

332,500

310,000

296,923 25,000

6,798

\$

137,351

104,859

39,261 19,098

4,000

228,675

143,650

127,500

15,603

14,159

8,248

Kathleen J. McJohn

Vice President, General Counsel

and Secretary (5)

2005

2004

2003

265,000

247,500

101,538 15,000

52,816

9,895
2,500
53,750

71,825

14,137
9,946
346

-
- (1) Amounts reported include relocation compensation and reimbursement of \$132,526 for 2005, \$94,515 for 2004 and \$29,756 for 2003 for Mr. McGill and \$52,566 for 2004 for Ms. McJohn, and amounts paid for various annual membership dues. See also Employment Agreements .
 - (2) The market price per share of our common stock at the close of business on the date that the restricted stock awards were granted was \$30.49, \$28.73 and \$17.05 per share for 2005, 2004 and 2003, respectively. The restrictions have lapsed on the 2003 and 2004 awards and will lapse with respect to one-third of the 2005 awards if the holder remains employed with us on each of December 9, 2005, 2006 and 2007.
 - (3) Amounts reported consist of (a) employer matching awards under our 401(k) plan and our deferred compensation plan of (i) \$7,904, \$17,080 and \$28,765 for Mr. Gamache, (ii) \$9,191, \$10,616 and \$19,499 for Mr. Edidin, (iii) \$8,562, \$11,496 and \$18,000 for Mr. Schweinfurth, (iv) \$8,248, \$9,544 and \$10,627 for Mr. McGill and (v) \$346, \$9,946 and \$12,495 for Ms. McJohn for 2003, 2004 and 2005, respectively; (b) cash payments relating to unused vacation time accrued in the previous calendar year of (i) none, \$9,014 and \$10,096 for Mr. Gamache, (ii) \$4,760, \$5,769 and \$6,490 for Mr. Edidin, (iii) none, \$5,481 and \$5,913 for Mr. Schweinfurth, (iv) none, \$4,615 and \$4,976 for Mr. McGill and (v) none, none and \$1,642 for Ms. McJohn for 2003, 2004 and 2005, respectively; (c) \$237,648, \$237,648 and \$(234,533) accrued for Mr. Gamache for 2003, 2004 and 2005, respectively, for death, disability and retirement benefits; (d) \$1,322 and \$2,588 paid in each of 2003, 2004 and 2005 for life insurance premiums for Mr. Edidin and Mr. Schweinfurth, respectively and (e) \$389 paid in 2005 to Mr. Edidin as an award for a patent idea. See also Employment Agreements .
 - (4) The amount accrued for Mr. Gamache s death, disability and retirement benefits for 2005 represents a negative adjustment recorded to reflect changes in Mr. Gamache s employment agreement that altered the assumptions upon which this accrual is based.
 - (5) Ms. McJohn was hired on January 27, 2003.

Stock Options

The following table sets forth information about options to purchase common stock that we granted in fiscal 2005 under our stock option plans to the persons named in the Summary Compensation Table.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants (#)		Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year			5%	10%
Brian R. Gamache	100,000(1)	7.0%	\$ 30.49	12/9/2014	\$ 1,917,500	\$ 4,859,321
	98,366(2)	6.8	\$ 30.49	12/9/2014	1,886,168	4,779,919
	32,431(3)	2.3	\$ 32.50	1/7/2015	662,860	1,679,817
	35,235(4)	2.5	\$ 33.90	6/16/2015	751,194	1,903,672
Orrin J. Edidin	37,044(2)	2.6	\$ 30.49	12/9/2014	710,319	1,800,087
	14,032(3)	1.0	\$ 32.50	1/7/2015	286,801	726,810
	15,856(4)	1.1	\$ 33.90	6/16/2015	338,042	856,666
Scott D. Schweinfurth	37,044(2)	2.6	\$ 30.49	12/9/2014	710,319	1,800,087
	12,785(3)	0.9	\$ 32.50	1/7/2015	261,314	662,220
	14,446(4)	1.0	\$ 33.90	6/16/2015	307,982	780,487
Seamus M. McGill	9,836(3)	0.7	\$ 32.50	1/7/2015	201,039	509,472
	9,262(4)	0.6	\$ 33.90	6/16/2015	197,461	500,406
Kathleen J. McJohn	5,096(3)	0.4	\$ 32.50	1/7/2015	104,158	263,956
	4,799(4)	0.3	\$ 33.90	6/16/2015	102,312	259,280

- (1) These options became exercisable with respect to one-third on August 11, 2005 and will become exercisable with respect to additional one-third portions on each of August 11, 2006 and 2007.
- (2) These options become exercisable with respect to one-third on each of December 9, 2005, 2006 and 2007.
- (3) These options become exercisable with respect to one-third on each of January 7, 2006, 2007 and 2008.
- (4) These options become exercisable with respect to one-third on each of June 16, 2006, 2007 and 2008.

The following table sets forth information about the exercise of options to purchase our common stock during fiscal 2005 and the number and assumed year-end values of stock options owned by persons named in the Summary Compensation Table.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL-YEAR-END OPTION VALUES**

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options at June 30, 2005		Value of Unexercised In-the-Money Options at June 30, 2005 (1)	
			Exercisable (#)	Unexercisable (#)	Exercisable	Unexercisable
Brian R. Gamache			467,500	296,034	\$ 7,217,550	\$ 1,431,637
Orrin J. Edidin	25,000	\$ 561,557	130,000	66,932	2,232,675	138,303
Scott D. Schweinfurth	75,000	1,572,398	130,000	64,275	2,232,675	136,745
Seamus M. McGill	38,750	748,901	84,000	19,098	1,427,070	12,295
Kathleen J. McJohn	28,750	548,843	2,500	34,895	13,200	575,120

(1) Based on the closing price of our common stock on the NYSE on June 30, 2005, which was \$33.75.

Long Term-Incentive Awards

The following table shows all long-term incentive awards that we made during fiscal 2005 to each of the named executive officers.

LONG TERM INCENTIVE AWARDS**IN LAST FISCAL YEAR**

Name	Number of Equity-Based Performance Units Awarded (1)	End of Performance Period for Payout	Minimum # of Shares of Common Stock Awarded	# of Shares of Common Stock Awarded if Performance Goals Met	Maximum # of Shares of Common Stock Awarded if Performance Goals Met
Brian R. Gamache	14,000	June 30, 2007		14,000	28,000
	15,487	June 30, 2008		15,487	30,974
Orrin J. Edidin	6,058	June 30, 2007		6,058	12,116
	6,969	June 30, 2008		6,969	13,938
Scott D. Schweinfurth	5,519	June 30, 2007		5,519	11,038
	6,350	June 30, 2008		6,350	12,700
Seamus M. McGill	4,246	June 30, 2007		4,246	8,492
	4,071	June 30, 2008		4,071	8,142
Kathleen J. McJohn	2,200	June 30, 2007		2,200	4,400
	2,109	June 30, 2008		2,109	4,218

- (1) Represents the number of performance units covered by the performance awards we granted during fiscal 2005 under our 2005 Incentive Plan. The awards contain performance goals set by our Board of Directors based on levels of total revenue and free cash flow for the Company over the thirty month period ending June 30, 2007 or thirty-six month period ending June 30, 2008, as set forth above. Free cash flow is defined as net income plus interest, taxes, depreciation and amortization (EBITDA), plus non-cash stock option and equity grant expense, less capital expenditures, cash taxes paid and adjustments for changes in net working capital. At the end of the performance period set forth above, the performance goals will be evaluated by the Compensation Committee of the Board of Directors and a determination made concerning the extent to which such performance goals have been met or exceeded. Upon determination of the extent to which the performance goal has been met, a participant, who remains employed with the Company, will receive a number of shares of common stock equal to the number of stock-based performance awards granted multiplied by a payout percentage determined pursuant to a matrix of possible performance levels. The matrix provides for a range of payout percentages, starting with a 10% payout if 50% and 70% of the cash flow and revenue targets are achieved, respectively; a 100% payout if 100% of each target is achieved; and a 200% maximum payout if 150% and 130% of the cash flow and revenue targets are achieved, respectively. The awards and the number of shares to be issued under the awards may be affected by a change in control pursuant to the 2005 Incentive Plan.

REPORT OF THE COMPENSATION COMMITTEE

ON FISCAL 2005 EXECUTIVE COMPENSATION

The Compensation Committee is responsible for determining the compensation of our Chief Executive Officer and making recommendations to our Board of Directors regarding the compensation of our other senior officers and is responsible for determining compensation plan grants and awards.

It is the policy of the Compensation Committee to provide attractive compensation packages to executive officers to motivate them to devote their full energies to our success, to reward them for their individual achievements and for our overall corporate performance and to align their interests with the interests of our stockholders. Our executive compensation packages are comprised primarily of base salaries, annual cash bonuses, and long-term incentives in the form of stock options, restricted stock grants, equity-based performance units and retirement and other benefits.

In fiscal year 2005, the Compensation Committee retained an independent consulting firm to analyze our executive compensation packages. The firm's report compared our executive compensation packages with those of a peer group made up of companies in the gaming industry, including both gaming machine manufacturers and casino operators. The report to the Compensation Committee concluded that overall our executive compensation packages were below market and made recommendations to the Compensation Committee designed to make our executive compensation packages more competitive. As a result, the Compensation Committee decided to renegotiate the employment agreements for Messrs. Gamache, Edidin and Schweinfurth and to alter the compensation packages for our other executive officers for fiscal 2005 based on these recommendations. The Compensation Committee believes that the total compensation paid to each of our executive officers for fiscal year 2005 was reasonable.

In fiscal 2005, the Board of Directors, upon the recommendation of the Compensation Committee and the independent consulting firm, instituted an annual performance based program for our executive officers, including performance based cash bonuses and long-term performance-based equity awards. In January 2005, the Board of Directors determined the performance goals and details of cash bonuses and performance-based equity awards to be awarded for fiscal 2005 and in June 2005, the Board of Directors determined the performance goals and details of similar awards for fiscal 2006. The payment of performance-based cash bonuses is conditioned upon our achieving designated revenue and earnings per share targets and the number of shares of common stock delivered under the performance-based equity awards is conditioned upon our achieving designated revenue and free cash flow targets.

In December 2004, the Board of Directors, upon the recommendation of the Compensation Committee and the independent consulting firm, awarded certain stock options and restricted stock to the executive officers and our Chairman of the Board of Directors as special turnaround awards in recognition of their performance during the Corporation's reemergence. In January 2005 and June 2005, the Board of Directors, upon the recommendation of the Compensation Committee, awarded stock options and performance-based equity awards to the executive officers as part of the long-term incentive plan recommended by the independent consulting firm.

Salary and Bonus

Our President and CEO, Brian R. Gamache, receives a base salary and is entitled to receive various retirement and other benefits. He is also entitled to receive an annual bonus of up to 280% of his salary and long-term incentives pursuant to programs established from time to time by the Compensation Committee. In determining the reasonableness of the overall level of Mr. Gamache's compensation package, the Compensation Committee considered, among other matters, the peer group analysis performed by the independent compensation consultants, the terms of Mr. Gamache's existing employment agreement, and tally sheets prepared by the independent compensation consultants which projected

salary, bonus, special turnaround awards, options and performance shares payable to Mr. Gamache under various scenarios, ranging from threshold

performance to exceptional performance, termination without cause and change in control. The Committee also considered the provisions of Mr. Gamache's employment agreement relating to retirement and his other perquisites, including healthcare and life insurance, as well as Mr. Gamache's overall compensation in relation to the compensation packages of our Chief Operating Officer and Chief Financial Officer.

In general, the level of base salary is intended to provide appropriate basic pay to executive officers taking into account their historical contributions to our business, each person's unique education, skills and value, the recommendation of the Chief Executive Officer and the competitive marketplace for executive talent. The maximum amount of the annual bonus and the performance criteria for earning such bonus is intended to incentivize our executives to meet or exceed our annual corporate performance goals. Messrs. Gamache, Edidin, and Schweinfurth each waived their right to receive the cash bonus each had earned for fiscal 2005 pursuant to the performance-based bonus program established by the Compensation Committee.

Long-Term Incentives

We also have used stock options, which increase in value only if our common stock increases in value and which terminate a short time after an executive leaves, restricted stock grants which vest over time and equity-based performance units the value of which are directly linked to the Corporation's performance, as a means of long-term incentive compensation. The Compensation Committee determines the size and nature of grants to our executive officers and other employees on an individual, discretionary basis in consideration of financial corporate results and each recipient's performance, contributions and responsibilities as well as such recipient's overall compensation package without assigning specific weight to any of these factors.

In fiscal 2005, Mr. Gamache received options to purchase 266,032 shares of our common stock with exercise prices ranging from \$30.49 to \$33.90 that will become exercisable with respect to one-third of the grant each year over three years. The other executive officers received options to purchase between 9,895 and 66,932 shares of our common stock at exercise prices ranging from \$30.49 to \$33.90 that will become exercisable with respect to one-third of the grant each year over three years.

In fiscal 2005, the Board of Directors, upon the recommendation of the Compensation Committee, instituted an annual performance based program and approved two sets of grants of equity-based performance units to each of our executive officers that provide for an award of common stock only to the extent certain performance goals are met. One set of awards was made in January 2005 for fiscal year 2005 and has a performance measurement date of June 30, 2007. The other set of awards was made in June 2005 for fiscal year 2006 and has a performance measurement date of June 30, 2008. Mr. Gamache received 14,000 units of the equity-based performance units with a performance measurement date of June 30, 2007 and 15,487 units with a performance measurement date of June 30, 2008. Mr. Edidin received 6,058 units with a performance measurement date of June 30, 2007 and 6,969 units with a performance measurement date of June 30, 2008. Mr. Schweinfurth received 5,519 units with a performance measurement date of June 30, 2007 and 6,350 units with a performance measurement date of June 30, 2008.

In fiscal 2005, the Board of Directors, upon the recommendation of the Compensation Committee, also approved a grant of restricted stock to each of our executive officers as special turnaround awards in recognition of their substantial time and efforts in the implementation of our technology improvement plan. Mr. Gamache received 67,457 shares of restricted stock. The other executive officers received a grant of between 7,500 and 30,989 shares. The restricted shares will vest with respect to one-third of each grant each year over three years, subject to each individual's continued employment with WMS.

Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally provides that publicly-held corporations will only be able to deduct, for income tax purposes, compensation paid to the chief executive officer or any of the four most highly paid senior executive officers in excess of one million dollars per year if it is paid under qualifying performance-based compensation plans approved by stockholders. Compensation as defined by Section 162(m) includes, among other things, base salary, incentive compensation and gains on stock option transactions. Under our 2005 Incentive Plan, which has been approved by our stockholders, all options granted to date have an exercise price at least equal to 100% of the fair market value of the underlying stock at the date of grant, and all equity-based incentive awards have been conditioned on achievement of performance goals intended to qualify as performance-based compensation. However, total compensation of some of our officers may be paid under plans or agreements that have not been approved by stockholders, or may not meet the Internal Revenue Code's definition of performance-based compensation and may exceed one million dollars in a particular fiscal year. We will not be able to deduct these excess payments for income tax purposes.

The Compensation Committee considers, on a case by case basis, how Section 162(m) will affect our compensation plans and contractual and discretionary cash compensation. The Compensation Committee also considers it important to retain flexibility to design compensation programs that recognize a full range of criteria important to our success, even where compensation payable under the programs may not be fully deductible.

This report is respectfully submitted by the Compensation Committee of the Board of Directors:

William C. Bartholomay, Chairman

Harvey Reich

CORPORATE PERFORMANCE GRAPH

The following graph compares, for the five fiscal years ended June 30, 2005, the yearly percentage change in cumulative total stockholder return on our common stock with the cumulative total return of (1) the Standard and Poor's 500 Stock Index or S&P 500, and (2) an index of selected issuers in our industry, or Peer Group, composed of Alliance Gaming Corp., Aristocrat Leisure, International Game Technology, Progressive Gaming International Corporation (successor to Mikohn Gaming Corporation) and Shuffle Master Inc. The graph assumes an investment of \$100 in our common stock and in each of the indexes at the closing price on June 30, 2000, including reinvestment of dividends where applicable.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
WMS	\$ 100.00	208.39	79.35	100.99	193.04	218.62
S&P 500	\$ 100.00	85.17	69.85	70.03	83.41	88.68
Peer Group	\$ 100.00	194.07	177.47	265.35	418.49	400.68

EMPLOYMENT AGREEMENTS

We employ Brian R. Gamache under the terms of an agreement dated December 27, 2004. The agreement term expires on December 31, 2007, subject to automatic rolling extensions so that the term of Mr. Gamache's employment shall at no time be less than two years. Under the agreement, Mr. Gamache will receive a base salary of \$700,000 per year. Mr. Gamache has the opportunity to earn a bonus of up to 280% of his base salary pursuant to an annual performance based program to be established by us. Mr. Gamache may participate in all benefit plans and perquisites generally available to our senior executives.

Upon the termination of Mr. Gamache's employment for any reason, whether by us or Mr. Gamache, he will receive the retirement benefits, payable in installments, specified under the agreement which are equal to one-half of Mr. Gamache's salary at the time of retirement, but not less than \$350,000 or more than \$500,000 per year, for a term that is the lesser of: (a) 10 years, or (b) the number of years Mr. Gamache is employed by WMS, beginning March 21, 2000. If Mr. Gamache is disabled for more than 90 consecutive days or 6 months in any 12-month period during the term of the agreement and is not able to resume his duties within 30 days of notice of disability, Mr. Gamache's employment will terminate, and he will receive the retirement benefits specified under the agreement. In the event of Mr. Gamache's death, his designated beneficiaries will continue to receive salary payments for a period of six months after the date of his death and will receive the retirement benefits that would otherwise have been paid to Mr. Gamache.

We may terminate the agreement for cause, which includes dishonesty or failure to follow the reasonable direction of our Board of Directors. Mr. Gamache may terminate the agreement for good reason upon the occurrence of: (a) a material breach by WMS of any material provision of the agreement, (b) the placement of Mr. Gamache in a position of lesser status, (c) the assignment to Mr. Gamache of duties inconsistent with his current position, (d) the reduction of the compensation to which he is entitled under the agreement, (e) his removal from the Board or (f) the relocation of our headquarters to a location more than 40 miles farther from his current place of residence than the present location of our headquarters. Upon any termination by Mr. Gamache for good reason, or by us without cause, we would be obligated to pay Mr. Gamache: (w) a lump sum payment equal in amount to Mr. Gamache's base salary through the date of termination, less any payments previously made; (x) the pro rata bonus which would have been payable during the current year; (y) an amount equal to three times the sum of his base salary plus a bonus amount equal to the average annual cash bonus paid to Mr. Gamache over the immediately preceding two fiscal years; and (z) the retirement benefits which would have been payable in the event of retirement on the date of termination. In addition, all of Mr. Gamache's unvested stock options and stock equity grants would immediately vest.

Mr. Gamache also may terminate the agreement if either of the following change of control events occurs: (a) the individuals who presently constitute our Board of Directors, or successors approved by these Board members or their successors, cease for any reason to constitute at least a majority of the Board or (b) both of the following occur (i) any person or entity or group of affiliated persons or entities who are not the owner of at least 15% of our outstanding voting securities on December 27, 2004, acquire more than 25% of our outstanding voting securities and (ii) Mr. Gamache remains employed by us for a period of 180 days thereafter. If either such a change of control event occurs and Mr. Gamache gives timely notice: (a) all of Mr. Gamache's unvested stock options and stock equity grants will immediately vest; (b) we will be required to pay him any accrued salary and the pro rata bonus which would have been payable during the current year had he remained employed; (c) we will be required to pay him a lump sum of three times the sum of his base salary plus a bonus amount equal to the average annual cash bonus paid to Mr. Gamache over the immediately preceding two fiscal years; (d) all of his retirement benefits would be payable as if he had retired on the date of such change of control; and (e) all health benefits provided to Mr. Gamache under the agreement shall continue for 18 months thereafter. All of Mr. Gamache's unexpired unvested options and stock equity grants also will immediately vest upon the occurrence of (x) Mr. Gamache's death; (y) Mr. Gamache's termination by reason of permanent disability; or (z) the acquisition of more than 25% of our outstanding voting securities by any person or entity or group of affiliated persons or entities who were not the owners of at least 15% of the outstanding voting securities on December 27, 2004.

If payments made to Mr. Gamache under the agreement after a change of control are considered excess parachute payments under Section 280G of the Internal Revenue Code of 1986, or the Code, additional compensation is required to be paid to Mr. Gamache to the extent necessary to eliminate the economic effect on him of the resulting excise tax. Under Section 4999 of the Code, in addition to income taxes, the recipient of excess parachute payments is subject to a 20% nondeductible excise tax on these payments. An excess parachute payment is a payment in the nature of compensation which is contingent on a change of ownership or effective control and which exceeds the portion of the base amount (i.e., the average compensation for the five-year period prior to the change of control) allocable to the payment. These rules apply only if the present value of all payments of compensation contingent on the change of control (including non-taxable fringe benefits) is at least equal to three times the base amount. Excess parachute payments are not tax deductible by us.

We employ Orrin J. Edidin under the terms of an agreement dated as of February 18, 2005. The agreement term expires on December 31, 2007, subject to automatic rolling extensions so that the term of Mr. Edidin's employment shall at no time be less than two years. Under his agreement, Mr. Edidin will receive a base salary of \$450,000 per year. Mr. Edidin has the opportunity to earn a bonus of up to 225% of his base salary pursuant to an annual performance based program to be established by us. Mr. Edidin may participate in all benefit plans and perquisites generally available to our senior executives, including long-term performance-based incentive programs to be established by us, and he will be provided with life insurance coverage in the amount of \$1,400,000 during the term of the agreement. In the event such coverage is not available for an annual premium of no more than \$3,000, we shall provide Mr. Edidin with whatever lesser amount of life insurance is available for such annual premium or permit Mr. Edidin to pay the portion of the annual premium in excess of \$3,000.

We also employ Scott D. Schweinfurth under the terms of an agreement dated as of February 18, 2005. The agreement term expires on December 31, 2007, subject to automatic rolling extensions so that the term of Mr. Schweinfurth's employment shall at no time be less than two years. Under his agreement, Mr. Schweinfurth will receive a base salary of \$410,000 per year. Mr. Schweinfurth has the opportunity to earn a bonus of up to 225% of his base salary pursuant to an annual performance based program to be established by us. Mr. Schweinfurth may participate in all benefit plans and perquisites generally available to our senior executives, including long-term performance-based incentive programs to be established by us, and he will be provided with life insurance coverage in the amount of \$1,400,000 during the term of the agreement. In the event such coverage is not available for an annual premium of no more than \$3,000, we shall provide Mr. Schweinfurth with whatever lesser amount of life insurance is available for such annual premium or permit Mr. Schweinfurth to pay the portion of the annual premium in excess of \$3,000.

We may terminate either Mr. Edidin's or Mr. Schweinfurth's agreement upon 30 days written notice for cause, which includes dishonesty or failure to follow a reasonable direction of our Chief Executive Officer or our Board of Directors. Both Mr. Edidin's and Mr. Schweinfurth's agreements may be terminated by either party upon two years notice.

Mr. Edidin and Mr. Schweinfurth may also terminate their respective agreements upon 30 days written notice for good reason, which means the occurrence of a material breach by WMS of any material provision of the agreement, including a material diminution of responsibility or base salary, or, in the event of a change of control, the relocation of his primary office to a location more than 40 miles farther from his current place of residence than the present location of our Waukegan and Chicago, Illinois offices. Upon any termination by Mr. Edidin or Mr. Schweinfurth for good reason, or by us without cause, under his agreement, we would be obligated to pay him: (a) any accrued base salary and any bonus awarded for any prior year to the extent not already paid, (b) within 30 days after the end of the fiscal year in which such termination occurred, a pro rata amount of the bonus payable for the year in which such termination occurs to the extent not already paid, (c) base salary and a pro rata amount of one year's bonus over the next twelve months at normal payroll intervals and (d) with 30 days after the first anniversary of such termination, a lump sum payment equal in amount to two times the sum of his base salary plus one year's bonus. The agreement defines one year's bonus as \$276,900 until the first year in which we pay a cash bonus, or the amount of the actual bonus paid after the first year in

which a cash bonus is paid under the agreement or, starting with the third year after a cash bonus is paid under the agreement, the average annual cash bonus paid to such officer over the immediately preceding two fiscal years.

If the agreement terminates by reason of the officer's death or his absence from his duties on a full-time basis for 90 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician, we will be required to pay the officer or his legal representatives: (a) any accrued base salary and the pro rata bonus which would have been payable during the current year had he remained employed; and (b) a lump sum equal to one-half the sum of his base salary, plus one year's bonus.

Mr. Edidin's or Mr. Schweinfurth's employment agreement may also be terminated if either of the following change of control events occurs: (a) the individuals who presently constitute our Board of Directors, or successors approved by these Board members, cease for any reason to constitute at least a majority of the Board, and the officer gives written notice of his election to terminate his employment within sixty days of such event or (b) any person or entity or group of affiliated persons or entities who were not the owners of at least 15% of the outstanding shares of our voting securities as of January 1, 2005, acquires more than 25% of our outstanding shares, and the officer gives written notice of his election to terminate his employment for "good reason" or the Company terminates his employment not for cause, death or disability within 180 days of such acquisition. In the event of such a termination of Mr. Edidin's or Mr. Schweinfurth's employment agreement, then in lieu of any other rights under his agreement, we will be required to pay him (a) any accrued base salary and the pro rata bonus to the extent not already paid; and (b) a lump sum of three times the sum of his base salary plus one year's bonus. If payments made to Mr. Edidin or Mr. Schweinfurth under their respective agreements after a change of control are considered "excess parachute payments" under Section 280G of the Internal Revenue Code of 1986, additional compensation is required to be paid to them to the extent necessary to eliminate the economic effect on him of the resulting excise tax.

In addition, if either (a) the individuals who presently constitute our Board of Directors, or successors approved by these Board members, cease for any reason to constitute at least a majority of the Board, or (b) any person or entity or group of affiliated persons or entities who were not the owners of at least 15% of the outstanding shares of our voting securities as of January 1, 2005, acquires more than 25% of our outstanding shares, all of Mr. Edidin's and Mr. Schweinfurth's unexpired unvested options and stock equity grants will immediately vest.

With respect to "excess parachute payments" made to either Mr. Edidin or Mr. Schweinfurth, under Section 4999 of the Internal Revenue Code of 1986, in addition to income taxes, the recipient of "excess parachute payments" is subject to a 20% nondeductible excise tax on these payments. An excess parachute payment is a payment in the nature of compensation which is contingent on a change of ownership or effective control and which exceeds the portion of the base amount (i.e., the average compensation for the five-year period prior to the change of control) allocable to the payment. These rules apply only if the present value of all payments of compensation contingent on the change of control (including non-taxable fringe benefits) is at least equal to three times the base amount. Excess parachute payments are not tax deductible by us.

In fiscal 2005, Messrs. Gamache, Edidin, and Schweinfurth each executed a letter agreement waiving their right to receive a cash bonus earned under their respective employment agreements and pursuant to the annual performance based bonus program established by the Compensation Committee.

We employ Seamus M. McGill through our wholly-owned subsidiary, WMS Gaming Inc., under an agreement dated February 1, 2001, as amended. Mr. McGill receives a salary of \$345,000 per year. Mr. McGill may receive annual discretionary bonuses of up to 75% of his base salary, depending on performance criteria. Additionally, Mr. McGill may participate in all benefit plans and perquisites generally available to executive employees. His agreement is subject to automatic rolling extensions so that the term of Mr. McGill's

employment shall at no time be less than two years. We may terminate the agreement for cause. His employment agreement may also be terminated by Mr. McGill if the individuals who presently constitute our Board of Directors, or successors approved by these Board members, cease for any reason to constitute at least a majority of the Board. If such a change of control occurs, and Mr. McGill gives us notice of termination within 60 days, then in lieu of any other rights under his agreement, all of Mr. McGill's unexpired options would immediately vest, and we will be required to pay him the lesser amount of (i) a lump sum equal to two times his base salary; or (ii) the maximum amount which could be payable to Mr. McGill without any portion of such amount being subject to the excise tax imposed by Section 4999 of the Code. If Mr. McGill remains employed by us for a year after such a change of control or if we terminate Mr. McGill's employment without cause during such period, under his agreement, Mr. McGill will be entitled to receive an additional lump sum payment equal to his based salary for one year.

In the event of (a) any change of control or (b) any person or entity or group of affiliated persons or entities who were not the owners of at least 15% of the outstanding shares of our voting securities as of November 15, 2001 acquiring more than 25% of our outstanding shares, all of Mr. McGill's unexpired unvested options immediately vest.

In May 2004, we requested that Mr. McGill spend up to 50% of his time in the U.K. and maintain a residence there. He currently receives \$9,000 per month, grossed up annually for taxes, as compensation for maintaining a U.K. residence and automobile for our convenience. Previously, in March 2003, we requested that Mr. McGill relocate from our Las Vegas office to our Chicago Technology Campus. Mr. McGill received \$5,000 per month to compensate him for maintaining a residence in Chicago, grossed up annually for taxes. Mr. McGill also received reimbursement for relocation expenses. Upon the termination of this relocation, we reimbursed Mr. McGill for costs related to moving back to Las Vegas. Mr. McGill also received, under the 2003 arrangement, and continues to receive under the 2004 arrangement, reimbursement of expenses associated with maintaining dual residences. Upon the termination of our requirement that Mr. McGill maintain a residence in the U.K., we will pay the costs related to moving his household goods to Las Vegas and also will pay him an additional four monthly stipends.

We employ Kathleen J. McJohn under the terms of an agreement dated November 22, 2002, as amended. Ms. McJohn receives a salary of \$275,000 per year. Ms. McJohn may receive annual discretionary bonuses of up to 50% of her base salary, depending on performance criteria. Additionally, Ms. McJohn may participate in all benefit plans and perquisites generally available to executive employees. We may terminate the agreement for cause. If we terminate the agreement without cause, Ms. McJohn is entitled to a continuation of her salary for six months.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationship with Midway

Midway was formerly a wholly-owned subsidiary of ours until Midway's initial public offering in 1996, after which we continued to own 86.8% of Midway's common stock. In 1998, we distributed all of our remaining Midway stock to our stockholders, and we have not owned any Midway common stock since then. Two of our directors are also directors of Midway: Messrs. Bartholomay and Sheinfeld. The remaining material agreements between Midway and us were terminated during fiscal 2005 and are described below:

Tax Separation Agreement. Until the Midway spinoff, Midway had been a member of the consolidated group of corporations of which WMS was the common parent for federal income tax purposes. Therefore, Midway was jointly and severally liable for any federal tax liability of the WMS group for the period that it was part of the WMS group. The agreement, dated as of April 6, 1998, as amended, set forth the parties' respective liabilities for federal, state and local taxes, among other things.

Tax Sharing Agreement. Under this agreement, dated July 1, 1996, WMS and Midway had agreed upon a method for determining the division of certain tax liabilities and credits between Midway and WMS.

In fiscal 2005, we terminated the Tax Separation Agreement and the Tax Sharing Agreement with Midway. Under the termination agreement, Midway paid us \$1.5 million, and we recorded a pre- and after-tax benefit in other income of \$1.5 million.

Other Related Party Transactions

Neil D. Nicastro, one of our directors, renders consulting services to us as reasonably requested by our Board of Directors, Chairman of the Board or Chief Executive Officer under a consulting agreement. The term of the agreement renews automatically for successive one-year terms unless either party gives notice of termination not less than six months before the end of the term then in effect. We pay Mr. Nicastro \$1,000 per month for his services under the consulting agreement.

Ira S. Sheinfeld, one of our directors, is a member of the law firm of Hogan & Hartson, LLP. We retained the firm to provide tax services during fiscal year 2005. We do not plan to retain Hogan & Hartson, LLP in the current fiscal year.

William C. Bartholomay, one of our directors, is Group Vice Chairman of Willis Group Holdings Limited, a global insurance broker and Willis North America, its principal U.S. subsidiary, which we retained to provide insurance broker services during the last fiscal year and have retained for insurance brokerage services during the current fiscal year. Mr. Bartholomay was formerly President of Near North National Group, insurance brokers, which we had previously retained to provide insurance brokerage services. See also "Election of Directors" above. We employ Mr. Bartholomay's son, William T. Bartholomay, in the position of Director of New Market Development. In fiscal 2005, William T. Bartholomay earned compensation of approximately \$106,000.

**PROPOSAL 2 RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

We propose that the stockholders ratify the appointment of Ernst & Young LLP as our Independent Registered Public Accountants for fiscal 2006 by the Audit and Ethics Committee of the Board of Directors. We expect that representatives of Ernst & Young LLP will be present at the annual meeting and that they will be available to respond to appropriate questions submitted by stockholders at the meeting. Ernst & Young LLP will have the opportunity to make a statement if they desire to do so.

Ernst & Young LLP served as our Independent Registered Public Accountants for fiscal 2004 and 2005 and billed us for services rendered in fiscal 2004 and fiscal 2005 as follows:

Audit Fees. The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of our annual financial statements for fiscal 2004 and fiscal 2005, including the review of the financial statements included in our Quarterly Reports on Form 10-Q and required regulatory compliance audits, were \$381,000 and \$831,000, respectively.

Audit-Related Fees. The aggregate fees for audit-related services for the same periods were \$153,900 and \$216,800, respectively. These audit related services generally included fees for the annual audit of our employee benefit plans, consultations on SEC comment letters and related responses, procedures performed in connection with our SEC registration statements and agreed-upon procedures relating to wide area progressive systems.

Tax Fees. The aggregate fees for tax services for the same periods were \$29,600 and \$32,500, respectively. These tax services include fees for domestic and foreign tax advice and planning.

All Other Fees. We did not retain Ernst & Young LLP for any other services and were not billed any other fees except as set forth above. In fiscal 2004 and fiscal 2005, no fees of our Independent Registered Public Accountants were approved by our Audit and Ethics Committee under S-X Rule 2-01(c)(7)(i)(C).

Pre-Approval Policies and Procedures. Our Audit and Ethics Committee has adopted a policy for pre-approving all audit and permitted non-audit services rendered to us by our auditors. All audit services must be approved by the full Audit and Ethics Committee. Under the policy, any permitted non-audit services must be pre-approved by either the full Audit and Ethics Committee or by a designated member of the Audit and Ethics Committee and our internal audit director. If a designated member and our internal audit director approve any non-audit services, the full Committee will be informed of such services at its next regularly scheduled meeting. Our Independent Registered Public Accountants will verify to our Audit and Ethics Committee annually that they have not performed and will not perform any prohibited non-audit services.

Percentage of Services Approved under S-X Rule 2-01(c)(7)(i)(C). None.

Vote Required for Ratification

Ratification by the stockholders of the appointment of Independent Registered Public Accountants is not required, but the Board believes that it is desirable to submit this matter to the stockholders. If holders of a majority of our common stock present in person or by proxy do not ratify the selection of Ernst & Young LLP at the meeting, the selection of Independent Registered Public Accountants will be reconsidered by the Audit and Ethics Committee.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS.

AUDIT AND ETHICS COMMITTEE REPORT

The Audit and Ethics Committee of our Board of Directors is composed of three independent directors. The Committee operates under a written charter adopted by the Board. A copy of the charter is available on the Corporate Governance page of our website found by selecting "Company Info" and then "Investor Relations" on our homepage, located at: www.wmsgaming.com.

Our management is responsible for our internal accounting controls and the financial reporting process. Our Independent Registered Public Accountants, Ernst & Young LLP, are responsible for performing an independent audit of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit and Ethics Committee's responsibility is to monitor and oversee these processes.

In keeping with that responsibility, the Audit and Ethics Committee has reviewed and discussed our audited consolidated financial statements with management and our Independent Registered Public Accountants. In addition, the Audit and Ethics Committee has discussed with our Independent Registered Public Accountants the matters required to be discussed by Statement on Auditing Standards No. 61, "Communications with Audit Committees," as amended.

The Audit and Ethics Committee has received the written disclosures and the letter from the Independent Registered Public Accountants required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and has discussed with the Independent Registered Public Accountants their independence. The Committee has also considered whether the provision of non-audit services by the Independent Registered Public Accountants is consistent with maintaining auditor independence.

Based on the Audit and Ethics Committee's discussions with management and the Independent Registered Public Accountants and the Committee's review of the representations of management and the report of the Independent Registered Public Accountants, the Committee recommended to our Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended June 30, 2005 for filing with the SEC.

This report is respectfully submitted by the Audit and Ethics Committee of the Board of Directors:

Harold H. Bach, Jr.

(Chairman)

William C. Bartholomay

William J. Vareschi, Jr.

OTHER MATTERS

Stockholder Proposals

As of the date of this proxy statement, the Board has not received notice of, and does not intend to propose, any other matters for stockholder action. However, if any other matters are properly brought before the meeting, it is intended that the persons voting the accompanying proxy will vote the shares represented by the proxy in accordance with their best judgment.

We must receive any stockholder proposals of matters to be acted upon at our 2006 Annual Meeting of Stockholders on or before June 29, 2006, in order to consider including them in our proxy materials for that meeting. Except as otherwise permitted under Rule 14a-8 under the Securities Exchange Act of 1934, in order for a matter to be acted upon at an annual meeting, notice of stockholder proposals must be delivered to us not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by a stockholder must be delivered not earlier than the 120th day prior to an annual meeting and not later than the 10th day following the day on which we first publicly announce the date of the meeting. Next year, provided we do not change our meeting date as described above, the submission period for stockholder notices will extend from August 18, 2006 to September 17, 2006, except as otherwise permitted under Rule 14a-8 under the Securities Exchange Act of 1934.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. These persons are required by regulation to furnish us with copies of all Section 16(a) reports that they file. Based on our review of copies of these reports that we have received and on representations from reporting persons that no Form 5 report was required to be filed by them, we believe that during fiscal 2005 our officers, directors and 10% beneficial owners complied with all of their Section 16(a) filing requirements, other than the late filing of a Form 4 by Mr. Sumner M. Redstone, a person who beneficially owns more than 10% of our common stock, reporting a June 6, 2005 partial settlement of a forward transaction.

Voting Procedures

We have appointed inspectors of election to tabulate the number of shares of common stock represented at the meeting in person or by proxy, to determine whether or not a quorum is present and to count all votes cast at the meeting. The inspectors of election will treat abstentions and broker non-votes as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Votes withheld in connection with the election of one or more of the nominees for director will not be counted in determining the votes cast and will have no effect on the outcome of the vote. With respect to the tabulation of votes cast on each proposal presented to the stockholders at the meeting, abstentions will be considered as present and entitled to vote with respect to that specific proposal, whereas broker non-votes will not be considered as present and entitled to vote with respect to that specific proposal. Therefore, abstentions will have the effect of a vote against each proposal, but broker non-votes will have no effect on the vote for or against each proposal. Under NYSE rules, with respect to any proposal that is a prerequisite to listing of additional or new securities, the total votes cast on the proposal must represent at least a majority of all outstanding shares of our common stock entitled to vote on the proposal. With respect to these proposals, broker non-votes are not counted as part of the total vote cast on the proposal. The term "broker non-votes" commonly refers to shares held in street name for customers, where the broker does not have authority under NYSE rules to vote on its own initiative on particular items, and the broker has not received instructions from the beneficial owners. At the annual meeting, brokers will have the authority to vote on Proposals 1 and 2.

How to Obtain Our Annual Report on Form 10-K

Our Internet website is located at www.wmsgaming.com. Through the Investor Relations pages of our website, you may view and print, as soon as reasonably practical after such information has been filed or furnished to the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act. The Forms 3, 4 and 5 filed by our officers, directors and holders of more than 10% of a registered class of our equity securities are also available on our website. You may also obtain our Form 10-K, and all other documents that we file electronically, at the SEC's website: www.sec.gov. We will also provide without charge a copy of our annual report on Form 10-K for the fiscal year ended June 30, 2005, including financial statements, to each of our stockholders of record on October 19, 2005 and each beneficial owner of our common stock on that date, upon receipt of a written request mailed to our offices, 800 South Northpoint Boulevard, Waukegan, Illinois 60085, attention: Treasurer. In the event that exhibits to the Form 10-K are requested, a reasonable fee will be charged for reproduction of the exhibits. Requests from beneficial owners of common stock must set forth a good faith representation as to their ownership.

It is important that you return the accompanying proxy card promptly. Therefore, whether or not you plan to attend the meeting in person, you are requested to mark, date, sign and return your proxy in the enclosed postpaid envelope. You may revoke the proxy at any time before it is exercised. If you attend the meeting in person, you may withdraw the proxy and vote your own shares.

By Order of the Board of Directors,

Kathleen J. McJohn
Vice President, General Counsel

and Secretary

Waukegan, Illinois

October 24, 2005

APPENDIX A

WMS INDUSTRIES INC.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

THE UNDERSIGNED, revoking all previous proxies, hereby appoints BRIAN R. GAMACHE, SCOTT D. SCHWEINFURTH and KATHLEEN J. MCJOHN, or any of them, as attorneys, agents and proxies with power of substitution, and with all powers that the undersigned would possess if personally present, to vote all shares of common stock of WMS Industries Inc. (the Company) which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held on December 15, 2005 and at all adjournments thereof.

The shares represented by this Proxy will be voted in accordance with the specifications made by the undersigned upon the following proposals, more fully described in the accompanying Proxy Statement. If no instructions are given by the undersigned, the shares represented by this proxy will be voted FOR the election of the nominees for directors designated by the board of directors and FOR proposal 2.

(1) Election of Directors.

“ FOR all nominees listed (except as marked to the contrary) “ WITHHOLD AUTHORITY to vote for all nominees listed “ EXCEPTIONS* ”

Louis J. Nicastro / Brian R. Gamache / Norman J. Menell / Harold H. Bach, Jr. / William C. Bartholomay /

Neil D. Nicastro / Edward W. Rabin, Jr./ Harvey Reich / Ira S. Sheinfeld / William J. Vareschi, Jr.

INSTRUCTIONS: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, MARK THE EXCEPTIONS* BOX AND WRITE THAT NOMINEE S NAME ON THE BLANK LINE BELOW:

Exceptions*: _____

(2) Ratification of appointment of Ernst & Young LLP as Independent Registered Public Accountants for fiscal 2006.

FOR “

AGAINST “

ABSTAIN “

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE NOMINEES AND THE PROPOSAL LISTED ABOVE.

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

Dated: _____, 2005

(Signature)

(Signature)

NOTE: Please sign exactly as your name(s) appear hereon. If signing as attorney, executor, administrator, trustee or guardian, give your full title as such. If signatory is a corporation, sign the full corporate name by a duly authorized officer. If shares are held jointly, each stockholder named should sign.

NOTE: PLEASE MARK, DATE, SIGN AND MAIL THIS PROXY IN THE POSTPAID ENVELOPE ENCLOSED FOR THIS PURPOSE.