

WMS INDUSTRIES INC /DE/  
Form DEF 14A  
October 27, 2004

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**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-12

**WMS INDUSTRIES INC.**

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(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on December 9, 2004**

To the Stockholders of

WMS Industries Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of WMS Industries Inc. ( WMS ) will be held on Thursday, December 9, 2004 at 11:00 a.m. Central Standard Time at The Four Seasons Hotel, 120 E. Delaware Place, Chicago, Illinois 60611, in The Walton Room, to consider and act upon the following matters:

1. Electing a board of nine (9) directors;
2. Ratifying the WMS Industries Inc. 2005 Incentive Plan;
3. Ratifying the appointment of Ernst & Young LLP as Independent Registered Public Accountants for our fiscal year ending June 30, 2005; and
4. Transacting such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on October 20, 2004 are entitled to notice of and to vote at our 2004 annual meeting and any adjournments thereof. A list of the stockholders entitled to vote at the annual meeting will be available for examination by any stockholder of WMS for any purpose germane to the annual meeting during regular business hours at our principal executive offices for the ten-day period prior to the annual meeting and will be available at the meeting.

**YOU ARE REQUESTED, WHETHER OR NOT YOU PLAN TO BE PRESENT AT THE ANNUAL MEETING, TO MARK, DATE, SIGN AND RETURN PROMPTLY THE ACCOMPANYING PROXY IN THE ENCLOSED POSTPAID ENVELOPE.**

By Order of the Board of Directors,

KATHLEEN J. MCJOHN  
*Vice President, General Counsel  
and Secretary*

Waukegan, Illinois  
October 22, 2004

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**ANNUAL MEETING OF STOCKHOLDERS  
OF  
WMS INDUSTRIES INC.**

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**PROXY STATEMENT**

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WMS Industries Inc. is furnishing this proxy statement to you in connection with the solicitation by our Board of Directors of proxies to be voted at our Annual Meeting of Stockholders. The meeting is scheduled to be held at The Four Seasons Hotel, 120 E. Delaware Place, Chicago, Illinois 60611, in The Walton Room, on Thursday, December 9, 2004 at 11:00 a.m. Central Standard Time, or at any proper adjournment or adjournments.

If you properly execute and return your proxy card, it will be voted in accordance with your instructions. If you return your signed proxy but give us no instructions as to one or more matters, the proxy will be voted on those matters in accordance with the recommendations of our Board as indicated in this proxy statement. You may revoke your proxy, at any time before it is voted, by written notice to us, by submission of another proxy bearing a later date or by voting in person at the meeting. Your revocation will not affect a vote on any matters already taken. Your mere presence at the meeting will not revoke your proxy.

The mailing address of our principal executive offices is 800 South Northpoint Boulevard, Waukegan, Illinois 60085. This solicitation is made by WMS Industries Inc. We will begin mailing this proxy statement and form of proxy to our stockholders on or about October 26, 2004, and we will bear the cost of soliciting proxies in the enclosed form. In addition to the solicitation of proxies by use of the mails, our officers, directors and other employees may also solicit proxies personally or by mail, electronic mail, telephone or facsimile, but they will not receive additional compensation for those services. We will ask banks, brokerage houses and other institutions, nominees and fiduciaries holding shares of our common stock in their names to forward soliciting material to their principals and to obtain authorization for the execution of proxies, and we will reimburse them upon request for their reasonable expenses in so acting.

Only holders of our common stock, \$.50 par value per share, of record at the close of business on October 20, 2004 (the Record Date ) will be entitled to vote at our annual meeting or any adjournment or adjournments. There were 30,403,423 shares of our common stock outstanding on the Record Date. Each share of our common stock entitles the holder to one vote on each matter at the meeting.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND  
EXECUTIVE OFFICERS**

**Principal Stockholders**

The following table sets forth information as of the dates noted in the footnotes about persons that, to our knowledge, beneficially own more than 5% of the outstanding shares of our common stock, determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, other than Neil D. Nicastro, whose beneficial ownership is described under Security Ownership of Directors, Nominees and Executive Officers below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Common Stock
Sumner M. Redstone and National Amusements, Inc. 200 Elm Street Dedham, MA 02026	7,483,900(1)	24.6%
FMR Corp. 82 Devonshire St Boston, MA 02109	3,434,529(2)	11.3%

- (1) Based upon a Form 4 filed with the Securities and Exchange Commission by Sumner M. Redstone and National Amusements, Inc. (NAI) on August 26, 2004. As a result of his stock ownership in NAI, Mr. Redstone is considered the beneficial owner of the shares owned by NAI. Mr. Redstone and NAI have reported sole dispositive power over 4,000,000 and 3,483,900 shares, respectively. Mr. Redstone has reported that, under several share forward transactions, he may sell up to all of his 4,000,000 directly-owned shares in several tranches beginning in March 2005 and ending in October 2005. These transactions, if completed, will reduce his beneficial ownership to 11.5% of our outstanding common stock by October 2005. Under a Voting Proxy Agreement among Mr. Redstone, NAI, Neil D. Nicastro and us, Mr. Nicastro has sole voting power over Mr. Redstone's shares including NAI's shares. See Voting Proxy Agreements.
- (2) Based upon Amendment 11 to Schedule 13G dated February 16, 2004 filed with the Securities and Exchange Commission by FMR Corp. FMR reported that it has no voting power but sole dispositive power over 3,434,529 shares as a result of its wholly-owned subsidiary, Fidelity Management and Research Company, acting as investment advisor to various investment companies holding 3,434,529 shares, one of which, FA Value Strategies Fund, reported holding 2,680,471 shares, over which Edward C. Johnson 3rd, Chairman of FMR, and Abigale P. Johnson, a director of FMR, also reported sole dispositive power. The amount reported to be held by FMR includes 620,830 shares of common stock issuable upon conversion of Convertible Subordinated Notes of WMS due July 15, 2010, convertible at a price of \$19.78 per share, held indirectly by FMR.

**Table of Contents****Security Ownership of Directors, Nominees and Executive Officers**

The following table sets forth, as of October 20, 2004, information about the beneficial ownership of our common stock by each of our directors, nominees and the executive officers named in the Summary Compensation Table below and by all of our directors, nominees and executive officers as a group, determined in accordance with Rule 13d-3 of the Securities Exchange Act. Unless otherwise indicated, all shares shown as beneficially owned are held with sole voting and investment power.

Name of Beneficial Owner	Number of Share of Common Stock Beneficially Owned(1)	Percentage of Outstanding Common Stock(1)
Harold H. Bach, Jr.*	50,000(2)	**
William C. Bartholomay*	104,531(3)	**
Orrin J. Edidin	157,500(4)(5)	**
Brian R. Gamache*	447,312(5)(6)	1.5%
Seamus McGill	123,750(5)(7)	**
Kathleen J. McJohn	18,750(5)(8)	**
William E. McKenna	84,325(3)	**
Norman J. Menell*	57,947(2)	**
Donna B. More	125,000(9)	**
Louis J. Nicaastro*	50,000(2)	**
Neil D. Nicaastro*	8,550,514(10)	28.1%
Harvey Reich*	53,421(2)	**
David M. Satz, Jr.	101,000(11)	**
Scott D. Schweinfurth	208,500(5)(12)	**
Ira S. Sheinfeld*	68,202(2)	**
William J. Vareschi, Jr.*	(13)	
Directors, Nominees and Executive Officers as a group (17 persons)	10,253,552(14)	32.0%

\* Nominee for Director

\*\* Less than 1%

- (1) Includes shares subject to options that are currently exercisable or will become exercisable within 60 days. These shares are deemed outstanding for purposes of calculating the percentage of outstanding common stock owned by a person individually and by all directors and executive officers as a group but are not deemed outstanding for the purpose of calculating the individual ownership percentage of any other person.
- (2) Represents 50,000 shares underlying stock options.
- (3) Includes 75,000 shares underlying stock options.
- (4) Includes 150,000 shares underlying stock options.
- (5) Includes a restricted stock grant which vests on May 10, 2005, subject to the reporting person's continued employment with WMS. For Mr. Gamache, the grant was 12,312 shares. For Messrs. Edidin and Schweinfurth, the grant was 7,500 shares. For Mr. McGill, the grant was 5,000 shares. For Ms. McJohn, the grant was 2,500 shares.
- (6) Includes 430,000 shares underlying stock options.
- (7) Includes 118,750 shares underlying stock options.
- (8) Includes 16,250 shares underlying stock options.

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- (9) Represents 125,000 shares underlying stock options.
- (10) Includes 7,483,900 shares owned by Sumner M. Redstone and National Amusements, Inc. and 1,006,600 shares owned by Phyllis G. Redstone for which the reporting person has sole voting power but

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no dispositive power. See Voting Proxy Agreements. Also includes 60,000 shares underlying stock options held by Mr. Nicastro.

- (11) Includes 100,000 shares underlying stock options.
- (12) Includes 200,000 shares underlying stock options.
- (13) This nominee will join the Board on December 9, 2004 if he is elected at the annual meeting.
- (14) Includes 1,646,400 shares underlying stock options and restricted shares totaling 37,312 shares. Also includes 7,483,900 shares of common stock owned by Sumner M. Redstone and National Amusements and 1,006,600 shares of common stock owned by Phyllis G. Redstone with respect to which Neil D. Nicastro has sole voting power but no dispositive power. See Voting Proxy Agreements below.

**Voting Proxy Agreements**

In order for us to manufacture and sell gaming machines in Nevada, our officers are required to be, and have been or are in the process of being, registered, licensed or found suitable by the Nevada gaming authorities. In addition, under applicable Nevada law and administrative procedure, as a greater than 10% stockholder of WMS, Sumner M. Redstone was required to apply, and has an application pending with the Nevada gaming authorities, for a finding of suitability as a stockholder of WMS. Mr. Redstone and National Amusements, Inc., a company that he controls, collectively own 7,483,900 shares, or 24.6%, of our common stock.

Under an amended voting proxy agreement, originally entered into in 1995, Mr. Redstone and National Amusements, Inc. voluntarily granted a voting proxy to Neil D. Nicastro to vote all of Mr. Redstone's and National Amusements, Inc.'s shares of our common stock. The agreement is intended to ensure that the passive investment position of Mr. Redstone and National Amusements, Inc. relative to WMS will not change without prior notification to the Nevada gaming authorities. Under this agreement, Mr. Nicastro votes the shares of our common stock owned by Mr. Redstone and National Amusements, Inc. at his discretion at meetings of our stockholders and acts as proxy in connection with any written consent of our stockholders. The term of the agreement ends on August 24, 2005 unless Mr. Redstone terminates it earlier upon 30 days' written notice. It may also be terminated upon a finding by the Nevada gaming authorities that Mr. Redstone and National Amusements Inc. are suitable as stockholders of WMS or are no longer subject to the applicable provisions of Nevada gaming laws.

Phyllis G. Redstone currently owns 1,006,600 shares, or 3.3%, of our common stock. Under an amended voting agreement, in 2002, Ms. Redstone granted a voting proxy to Neil D. Nicastro. Under this agreement, Mr. Nicastro votes the shares of our common stock owned by Ms. Redstone at his discretion at meetings of our stockholders and acts as proxy in connection with any written consent of our stockholders. The term of the agreement ends on November 8, 2012 unless Ms. Redstone terminates it earlier upon 30 days' written notice.

Neil D. Nicastro has advised us that he plans to use the voting proxies to vote all 8,490,500 shares of our common stock beneficially owned by Mr. Redstone and Ms. Redstone (approximately 27.9% of our common stock) in favor of the nominees for election as directors under Proposal 1 and FOR Proposals 2 and 3.

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board of Directors currently consists of 11 directors. Three of our directors, Messrs. McKenna and Satz and Ms. More, will not stand for re-election at the annual meeting. In addition, we have decided to reduce the size of our Board to nine directors.

Upon the recommendation of the Nominating and Corporate Governance Committee, the nine persons named below are nominated for election as directors to serve for a term expiring at our 2005 Annual Meeting of Stockholders and until their respective successors are elected and shall qualify. A director shall be qualified to serve only so long as no gaming authority has communicated their determination that such individual is not suitable for being licensed or not licensable by such authority. All of the nominees are presently directors, except for Mr. Vareschi.

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Unless authority to vote for the election of directors is withheld, the proxy holders named in the enclosed proxy will vote all shares represented thereby in favor of the election of each of the nominees named below. If any of the nominees are unable to serve or refuse to serve as directors, an event which the Board does not anticipate, the proxies will be voted in favor of those nominees who do remain as candidates, except as you otherwise specify, and may be voted for substituted nominees designated by the Board.

Name of Nominee (Age)	Position with Company and Principal Occupation	Director Since
Louis J. Nicastro (76)	Chairman of the Board	1974
Brian R. Gamache (45)	Director; President and Chief Executive Officer	2001
Norman J. Menell (72)	Vice Chairman of the Board; Retired	1980
Harold H. Bach, Jr. (72)	Director; Retired	2003
William C. Bartholomay (76)	Director; Group Vice Chairman of Willis Group Holdings Limited; Vice Chairman of Willis North America	1981
Neil D. Nicastro (47)	Director; Private Investor	1986
Harvey Reich (75)	Director; Attorney	1983
Ira S. Sheinfeld (66)	Director; Attorney, Hogan & Hartson, LLP	1993
William J. Vareschi, Jr. (62)	Director; Retired	

**Louis J. Nicastro** has served as our Chairman of the Board since our incorporation in 1974. He was our Chief Executive Officer from 1998 until June 2001 and was also President from 1998 to April 2000. Mr. Nicastro also served as our Chief Executive Officer or Co-Chief Executive Officer from 1974 to 1996 and as President during the periods 1985-1988 and 1990-1991, among other executive positions. Mr. Nicastro also served as Chairman of the Board and Chief Executive Officer of our former subsidiary, WHG Resorts & Casinos Inc. and its predecessors, from 1983 to 1998. WMS spun off WHG Resorts & Casinos Inc. in 1997. Mr. Nicastro held executive positions for our former subsidiary, Midway Games Inc. (NYSE: MWY), from 1988 until 1996 and was a director of Midway until September 2004. WMS spun off Midway in 1998. Mr. Nicastro is Neil D. Nicastro's father.

**Brian R. Gamache** served as our President and Chief Operating Officer from April 2000 until June 2001, when he was appointed President and Chief Executive Officer and joined our Board of Directors. Mr. Gamache served as President of the Luxury and Resort Division of Wyndham International from 1998 until April 2000. He was President and Chief Operating Officer of WHG Resorts & Casinos Inc. from 1997 to 1998. From 1990 until 1997, Mr. Gamache served in various capacities for our former hotel and resort subsidiaries, rising to the position of President and Chief Operating Officer. At the time of WMS' 1997 spinoff of WHG Resorts & Casinos Inc., Mr. Gamache left WMS to devote his full time to WHG Resorts & Casinos Inc.

**Norman J. Menell** has been Vice Chairman of our Board since 1990. He has also served as our President (1988-1990), Chief Operating Officer (1986-1990) and Executive Vice President (1981-1988). Mr. Menell is the Chairman of our Nominating and Corporate Governance Committee.

**Harold H. Bach, Jr.** joined our Board in October 2003. He served as Chief Financial Officer and an Executive Vice President of Midway for more than five years until his retirement in September 2001. Mr. Bach also served as Vice President - Finance, Chief Financial Officer and Chief Accounting Officer of WMS for over five years until 1999 when he resigned his position with us to devote his full business time to Midway. Mr. Bach is a certified public accountant and was a partner in the accounting firms of Ernst & Young, LLP (1989-1990) and Arthur Young & Company (1967-1989). Mr. Bach is a member of our Audit and Ethics Committee. Mr. Bach is also a director and audit committee member of Midway.

**William C. Bartholomay** has been Group Vice Chairman of Willis Group Holdings Limited (NYSE: WSH) and Vice Chairman of its principal U.S. subsidiary, Willis North America, a global insurance broker, since August 2003. For more than five years previous to joining Willis, Mr. Bartholomay served as President and a director of Near North National Group, insurance brokers in Chicago, Illinois.

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Mr. Bartholomay is the Chairman of our Compensation Committee and a member of our Audit and Ethics Committee and our Nominating and Corporate Governance Committee. Mr. Bartholomay is the Chairman Emeritus of the Board and Chairman of the Executive Committee of the Atlanta Braves and a director of Midway. Mr. Bartholomay is also a director and audit committee member of International Steel Group Inc. (NYSE:ISG).

**Neil D. Nicastro** served in various executive positions for us, including President, Chief Executive Officer and Chief Operating Officer, beginning in 1986 and until his resignation from all executive positions with us in 1998. Mr. Nicastro served as Midway's President from 1991 until May 2003 and Chief Executive Officer from 1996 to May 2003. He also served as Midway's Chairman of the Board from 1996 until June 2004. Mr. Nicastro is a consultant to us and is Louis J. Nicastro's son.

**Harvey Reich** was a member of the law firm of Robinson Brog Leinwand Greene Genovese & Gluck, P.C., New York, New York and its predecessor firms for more than five years until his retirement in 1998. Mr. Reich is a member of our Compensation Committee and our Gaming Compliance Committee.

**Ira S. Sheinfeld** has been a member of the law firm of Hogan & Hartson, LLP and a predecessor law firm, Squadron, Ellenoff, Plesent & Sheinfeld LLP, New York, New York, for more than five years. Mr. Sheinfeld is also a director of Midway.

**William J. Vareschi, Jr.** retired as Chief Executive Officer and Vice Chairman of the Board of Central Parking Corporation in May 2003. Before joining Central Parking Corporation in April 2001, his prior business career of more than 35 years of service was spent with the General Electric Company, which he joined in 1965. He held numerous financial management positions within GE, including Chief Financial Officer for GE Plastics Europe (in the Netherlands), GE Lighting (Cleveland, Ohio), and GE Aircraft Engines (Cincinnati, Ohio). In 1996, Mr. Vareschi became President and Chief Executive Officer of GE Engine Services, a position he held until July 2000. Mr. Vareschi serves as a director and a member of the audit committee of WESCO International Inc. (NYSE: WCC).

**Vote Required to Elect Nominees**

The affirmative vote of a plurality of the shares of our common stock present in person or by proxy at the annual meeting is required to elect directors.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE NOMINEES FOR ELECTION AS DIRECTORS.**

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**CORPORATE GOVERNANCE**

**The Board of Directors**

The Board of Directors is our ultimate decision-making body, responsible for overseeing our affairs, except with respect to those matters reserved to the stockholders by law or under our By-laws. The Board has adopted Corporate Governance Guidelines and a Code of Business Conduct and Ethics. These documents describe the responsibilities of our directors and other key corporate governance matters. We will provide a copy of these documents to stockholders, without charge, upon written request addressed to us at 800 South Northpoint Boulevard, Waukegan, Illinois 60085, attention: Treasurer. These documents can also be viewed on the Corporate Governance page of our website by selecting Company Info and then Investor Relations from our homepage, located at: [www.wmsgaming.com](http://www.wmsgaming.com).

During fiscal 2004, the Board held six meetings. Each director attended at least 75% of the aggregate number of meetings of the Board and all committees on which he or she served during the fiscal year. Our non-management directors hold regular executive sessions without management being present. The Chairman of the Board, who is not an executive officer, presides at these meetings.

It has been our policy, and it is now a requirement of the listing standards of the NYSE, that a majority of the members of our Board qualify as independent directors who have no material relationship with us, other than serving as a director. Our Board has adopted the following categorical standards, as permitted by Section 303A.02 of the NYSE listing standards. A director who satisfies the NYSE definition of independent and who meets all of the following categorical standards shall be presumed to be independent :

The director does not directly or indirectly (as a partner, shareholder or officer of another company) provide consulting, legal or financial advisory services to us or our auditors for compensation exceeding (i) for direct services, \$100,000 or (ii) for indirect services, the greater of \$1 million or 2% of such other company's revenues;

The director does not hold 5% or more of our common stock or convertible senior notes; and

The director does not serve as an executive officer or director of a civic or charitable organization that receives significant financial contributions from us.

Our Board has determined that all of the existing members of our Board of Directors, except for our President and Chief Executive Officer, Brian R. Gamache, are independent under the applicable NYSE standards and meet these categorical standards and are therefore independent in accordance with our policies. Mr. Gamache is not independent under NYSE standards because he is one of our executive officers.

In addition, in order to be nominated for election to our Board, our directors must possess a number of skills and other qualifications, as discussed below under the heading Nominating and Corporate Governance Committee Policies.

**Director Compensation**

We pay a fee of \$30,000 per year to each of our non-employee directors, except that we paid Louis J. Nicastro, our Chairman of the Board, a fee of \$305,000 per year in fiscal 2004 and into fiscal 2005, which fee was increased to \$500,000 per year beginning October 1, 2004. Directors who serve as the chairman or a member, respectively, of the committees of our Board of Directors receive a further annual fee as follows: Audit and Ethics Committee: \$30,000 or \$25,000; Compensation Committee: \$10,000 or \$5,000; Gaming Compliance Committee: \$15,000 or \$10,000; and Nominating and Corporate Governance Committee: \$7,500 or \$5,000. David M. Satz, Jr. received a fee of \$5,000 per year for serving as the non-employee director of some of our subsidiaries. After his retirement from the Board on December 9, 2004, Mr. Satz will serve as a consultant to our Gaming Compliance Committee for a two year term. He will be paid \$39,500 per year for such services.

Our stock option plans permit the issuance of shares of our common stock upon exercise of non-qualified stock options which may be granted to non-employee directors of WMS, generally, at not less than 100% of

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the fair market value of the shares on the date of grant. On August 11, 2004, each of our directors, except Mr. Gamache, was granted an option to purchase 25,000 shares of our common stock, at an exercise price of \$23.46. On September 18, 2003, each of our directors was granted an option to purchase 25,000 shares of our common stock, at an exercise price of \$24.83.

Directors and their spouses are also entitled to participate, at our expense, in a medical reimbursement plan which is supplementary to their primary medical insurance. Under the terms of a letter agreement, dated June 12, 2001, which terminated our employment agreement with Louis J. Nicastro, we will provide Mr. Nicastro and his wife with medical and dental expenses for life. In addition, our directors may utilize our corporate aircraft for purposes related or incidental to our business.

The Board has recently approved a Director succession/ emeritus program. The succession plan provides that new directors will be subject to mandatory retirement from the Board at age 75 or after 20 years of service on the Board, provided that the Board may waive a director's mandatory retirement by action of 75% of the other directors. Existing directors who have reached the age of 75 or have served for at least 20 years will gradually be replaced by new directors in order to maintain continuity and avoid losing the benefit of valuable experience.

Each director leaving the Board for any reason who has reached at least 75 years of age, or who has served for at least 20 years on the Board, will be designated a Director Emeritus for four years after leaving the Board if the individual (a) is willing to assist the Board from time to time upon request by the Board, (b) agrees not to use our trade secrets or confidential information and (c) agrees not to solicit our employees on behalf of competitors. For each year or partial year of service on the Board or as an executive officer of ours or our predecessors (up to a maximum of 25 years), a Director Emeritus will receive:

a fee of \$1,500 per year of service, paid in each of the first two years after leaving the Board;

a fee of \$750 per year of service, paid in each of the next two years;

three months of continuing supplemental health coverage per year of service; and

a fully vested five year option to purchase 1,000 shares of our common stock per year of service exercisable at 100% of the market price on the day the director leaves the Board.

For example, a director who has served on our Board for 20 years would receive \$30,000 per year for the first two years after leaving the Board, \$15,000 per year in each of the next two years, five years of supplemental health coverage and an option to purchase 20,000 shares of our common stock. Messrs. Satz and McKenna will participate and receive benefits as Directors Emeritus upon their retirement from the Board in December 2004.

## **Committees of the Board of Directors**

To assist it in carrying out its duties, the Board has delegated specific authority to four standing committees: our Audit and Ethics Committee; Nominating and Corporate Governance Committee; Compensation Committee; and Gaming Compliance Committee. The Board of Directors has determined that all of the members of these committees are independent directors as that term is defined under the applicable NYSE listing standards and satisfy our categorical standards of independence.

The *Audit and Ethics Committee*, is composed of three independent directors (as independence is defined in Section 303A.06 and 303A.07 of the NYSE listing standards): Messrs. McKenna (Chairman), Bach and Bartholomay. Mr. McKenna will not stand for re-election to the Board at our annual meeting, and so a new member will be appointed to, and a new chairman will be selected for, our Audit and Ethics Committee immediately after the annual meeting. The Board has determined that each member of our Audit and Ethics Committee is financially literate and that Mr. Bach is an audit committee financial expert.

The Audit and Ethics Committee performs the functions described below under the heading *Audit and Ethics Committee Report* and in its charter. During fiscal 2004, the Audit and Ethics Committee held 14 meetings.

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The *Compensation Committee* is composed of Messrs. Bartholomay (Chairman), McKenna and Reich. Mr. McKenna will not stand for re-election to the Board at our annual meeting, and so a new member will be appointed to our Compensation Committee immediately after the annual meeting. This Committee (1) reviews and approves corporate goals and objectives relevant to the compensation of our CEO and our other senior officers, (2) reviews periodically the succession plans relating to the CEO and our other senior officers, (3) evaluates the CEO's performance and determines the compensation of the CEO, (4) makes recommendations to the Board with respect to compensation of our other senior officers, and (5) administers, approves and ratifies awards under incentive-compensation and other benefit plans. This committee also administers and determines the timing, pricing and the amount of grants to be made under the provisions of our compensation plans. See

Compensation Plans below. The report of this committee is set forth later in this proxy statement. During fiscal 2004, this committee did not hold any formal meetings at which action was taken, taking all action by the unanimous written consent of its members.

The *Nominating and Corporate Governance Committee* is composed of Messrs. Menell (Chairman) and Bartholomay. This Committee identifies individuals qualified to become Board members and makes recommendations about the nomination of candidates for election to the Board, as discussed in greater detail below. In addition, this Committee makes recommendations regarding corporate governance policies and procedures and oversees the annual evaluation of the Board and management. During fiscal 2004, this committee did not hold any formal meetings at which action was taken, taking all action by the unanimous written consent of its members.

The Board has adopted a written charter for each of our committees described above. A copy of the charter of our Audit and Ethics Committee is included as Appendix A to this proxy statement. A copy of any of these charters is available in print, without charge, to any stockholder by contacting us at: 800 South Northpoint Boulevard, Waukegan, Illinois 60085, attention: Treasurer. The charters are also 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](http://www.wmsgaming.com).

The *Gaming Compliance Committee* is composed of Messrs. Satz (Chairman) and Reich and Ms. More. Mr. Satz and Ms. More will not stand for re-election to the Board at our annual meeting, and so new members will be appointed to, and a new chairman will be selected for, our Gaming Compliance Committee immediately after the annual meeting. This Committee identifies and evaluates potential situations, among other things, arising in the course of our business that may cause regulatory concern to gaming authorities. During fiscal 2004, this committee held four meetings.

### **Compensation Committee Interlocks and Insider Participation.**

No member of our Compensation Committee is or ever was an employee or officer of WMS or any of its subsidiaries. No officer, director or other person had any relationship required to be disclosed under this heading. Mr. Bartholomay is Group Vice Chairman of Willis Group Holdings Limited and Vice Chairman of its principal U.S. subsidiary, Willis North America, Inc., insurance brokers, which we retained to provide insurance brokerage services during the last fiscal year and propose to retain for insurance services during the current fiscal year. Mr. Bartholomay's son is a non-executive employee of WMS. See Certain Relationships and Related Transactions Other Related Party Transactions below.

### **Nominating and Corporate Governance Committee Policies**

*Qualifications of Directors.* Under our By-laws, each director must be at least 21 years of age and will not be qualified to serve as a director if any gaming authority has communicated their determination that such individual is not suitable for being licensed or not licensable by such authority. Further, under a policy formulated by our Nominating and Corporate Governance Committee, we require that all candidates for director (a) be persons of integrity, sound ethical character and judgment; (b) have no interests that materially impair their independent judgment or their ability to discharge their fiduciary duties to us and our stockholders; (c) have demonstrated business, governmental or technical achievement and acumen; and (d) have adequate time to devote to service on the Board. We also require that a majority of our directors be

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independent, as described above under "The Board of Directors". In addition, at least three of our directors must have the financial literacy necessary for service on the audit committee, and at least one of our directors must qualify as an audit committee financial expert.

*Stockholder Recommendations of Candidates for Election as Directors.* The Nominating and Corporate Governance Committee will consider recommendations for director nominations submitted by stockholders that individually or as a group have beneficial ownership of at least 3% of our common stock, but only when a qualified incumbent is not being nominated for the position and the recommended nominee satisfies the minimum qualifications prescribed by the Committee for all nominees as described above. For each annual meeting of our stockholders, the Committee will accept for consideration only one recommendation from any stockholder or affiliated group of stockholders. Submissions must be made in accordance with the Committee's procedures, as outlined below.

*Procedures for Stockholder Submission of Nominating Recommendations.* A stockholder wishing to recommend to the Nominating and Corporate Governance Committee a candidate for election as a director must submit the recommendation, in writing, addressed to the Committee care of our Corporate Secretary at 800 South Northpoint Boulevard, Waukegan, Illinois 60085. The submission must be made by mail, courier or personal delivery. E-mail submissions will not be considered.

The submission must be made in accordance with the provisions of Article I, Section 14 of our By-laws. Our By-laws are filed with the Securities and Exchange Commission and are incorporated by this reference from an exhibit to our quarterly report on Form 10-Q for the quarter ended March 31, 2004. Under Section 14, among other requirements, the submission must generally be delivered no later than 90 days nor earlier than 120 days prior to the anniversary of the prior year's annual meeting. This year, that period was from August 13, 2004 to September 12, 2004, and we did not receive any submissions from stockholders. Next year, the submission period will extend from August 11, 2005 to September 10, 2005. The submission must include information about the proposed nominee, including his or her age, business and residence addresses, principal occupation, the class and number of shares of common stock beneficially owned and such other information as would be required to be included in a proxy statement soliciting proxies for the election of the proposed nominee, and information about the stockholder recommending the nomination of that person. Submissions from our stockholders must also include information about the stockholder making the submission such as (a) the stockholder's name and address, (b) the class and number of shares held by the stockholder, (c) a representation that the stockholder is entitled to vote at the meeting in person or by proxy and (d) a representation concerning the stockholder's plan to solicit proxies in support of the proposal. Our stockholders should refer to the By-laws for a complete description of the requirements.

Under the Committee's policy, the recommendation must also be accompanied by the consent of the proposed nominee to serve if nominated, to be identified in the proxy statement and to be interviewed by the Committee, if the Committee chooses to do so. The submission must include the proposed nominee's contact information for this purpose. It must also describe all relationships between the proposed nominee and (a) any of our competitors, customers, suppliers or other persons with interests regarding us and (b) the recommending stockholder, as well as any agreements or understandings between the recommending stockholder and the proposed nominee regarding the recommendation. Furthermore, the submission must state the basis for the recommender's views that the proposed nominee (x) possesses the minimum qualifications prescribed by the Committee for nominees, briefly describing the contributions that the nominee would be expected to make to the board and to our governance and (y) would represent all stockholders and not serve for the purpose of advancing or favoring any particular stockholder or other constituency. The submission, if by a holder of over 5% of our common stock, must state whether or not the stockholder submitting the recommendation consents to be identified in the proxy statement.

*The Process of Identifying and Evaluating Candidates for Directors.* Our directors' terms on the Board expire annually. We are of the view that the continuing service of a substantial number of qualified incumbents promotes stability and continuity in the boardroom. In selecting candidates for nomination for election to the Board at our annual meetings of stockholders, the Nominating and Corporate Governance Committee begins by determining whether the incumbent directors desire to continue their service on the Board. The Committee

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then considers whether our incumbent directors who desire to remain on the board continue to satisfy the qualifications for director candidates described above, we consider our director succession plan, and we assess the directors' performance during the preceding term.

If there are Board positions for which the Committee will not be re-nominating a qualified incumbent, the Committee will solicit recommendations for nominees from persons whom the Committee believes are likely to be familiar with qualified candidates, including members of the Board and senior management. The Committee may also engage a search firm to assist in identifying qualified candidates. The Committee will evaluate candidates recommended by stockholders in the same manner as candidates recommended by other persons, except that the Committee may consider, as one of the factors in its evaluation of stockholder-recommended candidates, the size and duration of the interest of the recommending stockholder or stockholder group in our equity securities.

The Committee will review and evaluate each candidate whom it believes merits serious consideration, assemble and review the available relevant information concerning the candidate, the qualifications for Board membership established by the Committee, the contribution that the candidate can be expected to make to the overall functioning of the Board and other factors that it deems relevant. The Committee may solicit the views of management and other members of the Board and may, if deemed helpful, conduct interviews of proposed candidates.

*Selection of Nominees for Election at the 2004 Annual Meeting of Stockholders.* All of the nominees listed on the accompanying proxy card are currently serving on our Board, except for Mr. Vareschi. This nominee was recommended by a search firm, Russell Reynolds Associates, that we engaged to identify and provide background information concerning potential candidates for the Board.

## **Stockholder Communications with Directors**

Stockholders may communicate with our Board of Directors, our Chairman of the Board, our non-management Directors as a group, or with specified individual Directors by mail addressed to WMS Industries Inc., 800 South Northpoint Boulevard, Waukegan, Illinois 60085.

Communications will be opened and screened for security purposes. Advertisements, solicitations, form letters, personal grievances and the like, or communications that appear to be intimidating, threatening, illegal or similarly inappropriate will be forwarded only upon the request of our Directors.

## **Director Attendance at Annual Meetings**

Directors are expected to attend our annual meeting of stockholders. At last year's annual meeting, all of our directors attended in person.



**Table of Contents****EXECUTIVE OFFICERS**

The following individuals were elected to serve in the capacities set forth below until the Annual Meeting of our Board of Directors and until their respective successors are elected and shall qualify.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Brian R. Gamache	45	President and Chief Executive Officer
Scott D. Schweinfurth	50	Executive Vice President, Chief Financial Officer and Treasurer
Orrin J. Edidin	43	Executive Vice President and Chief Operating Officer
Seamus M. McGill		Executive Vice President and Managing Director, International Operations of WMS Gaming Inc.
Kathleen J. McJohn	45	Vice President, General Counsel and Secretary
Robert R. Rogowski	46	Vice President of Finance and Controller

The principal occupation and employment experience of Mr. Gamache during the last five years is described under Proposal 1 Election of Directors above.

**Scott D. Schweinfurth** joined us in April 2000, assuming the offices of Executive Vice President, Chief Financial Officer and Treasurer. He is a certified public accountant and was, from 1996 until March 2000, Senior Vice President, Chief Financial Officer and Treasurer of Alliance Gaming Corporation, a diversified gaming company. Mr. Schweinfurth also acted as Managing Director of Alliance's Germany-based Bally Wulff subsidiary from 1999 to March 2000.

**Orrin J. Edidin** joined us in 1997 and served as our Vice President, Secretary and General Counsel until September 2001, when he became our Executive Vice President, General Counsel, Secretary, and Chief Operating Officer. He served as General Counsel until January 2003 and as Secretary until February 2003. He continues to serve as our Executive Vice President and Chief Operating Officer. Mr. Edidin also served as Vice President, Secretary and General Counsel of Midway from 1997 to May 2000. Mr. Edidin is a Trustee of the International Association of Gaming Attorneys and the Vice President of the Association of Gaming Equipment Manufacturers.

**Seamus M. McGill** joined us in 1998 as the Vice President of Worldwide Sales of our wholly-owned subsidiary, WMS Gaming Inc. In September 2001, he became the Executive Vice President of Worldwide Sales and Marketing of WMS Gaming, and on April 15, 2004, he became Executive Vice President and Managing Director, International Operations of WMS Gaming. Prior to joining WMS Gaming, Mr. McGill served as Executive Vice President for Mikohn Gaming Corporation, a diversified gaming company, from 1995 to 1998.

**Kathleen J. McJohn** joined us in January 2003 as General Counsel and was appointed Vice President and Secretary in February 2003. From 1996 to December 2002, Ms. McJohn was Vice President, Law, at Sears, Roebuck and Co.

**Robert R. Rogowski** joined us in 1992 as Director of Internal Audit, becoming Vice President of Finance of WMS Gaming in 1996 and our Vice President of Finance and Controller in April 2000. He is a certified public accountant.

**Table of Contents****EXECUTIVE COMPENSATION**

The Summary Compensation Table below sets forth information with respect to the compensation paid to our Chief Executive Officer and our four most highly compensated other executive officers for services rendered during fiscal 2004, 2003 and 2002.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation(3)
		Salary	Bonus	Other(1)	Securities Underlying Options (#)	Restricted Stock Awards(2)	
Brian R. Gamache President and Chief Executive Officer	2004	\$ 587,500	\$ 350,000		32,500	12,312	\$ 263,742
	2003	550,000				7,478	245,552
	2002	550,000	500,000		200,000		539,752(4)
Orrin J. Edidin Executive Vice President and Chief Operating Officer	2004	365,200	106,308		5,000	7,500	17,235
	2003	322,307				7,478	14,801
	2002	280,000	105,000		50,000		6,077
Scott D. Schweinfurth Executive Vice President, Chief Financial Officer and Treasurer	2004	355,000	60,436		5,000	7,500	19,565
	2003	326,923				7,478	11,150
	2002	310,000	116,250		50,000		8,173
Seamus M. McGill Executive Vice President and Managing Director, International Operations of WMS Gaming Inc.	2004	310,000	6,798	\$ 104,859	4,000	5,000	14,159
	2003	296,923		39,261		7,478	8,248
	2002	280,000	105,000		50,000		5,356
Kathleen J. McJohn Vice President, General Counsel and Secretary(5)	2004	247,500		52,816	2,500	2,500	9,946
	2003	101,538			53,750		346

- (1) Amounts reported include relocation compensation and reimbursement of \$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 fair market value per share of the restricted stock awards was \$28.73 and \$17.05 per share for 2004 and 2003, respectively. The restrictions have lapsed on the 2003 awards and will lapse on the 2004 awards if the holder remains employed with us until May 10, 2005.
- (3) Amounts reported consist of (a) employer matching awards under our 401(k) plan and our deferred compensation plan of (i) \$5,045, \$7,904 and \$17,080 for Mr. Gamache, (ii) \$5,227, \$9,191 and \$10,616 for Mr. Edidin, (iii) \$5,585, \$8,562 and \$11,496 for Mr. Schweinfurth, (iv) \$5,356, \$8,248 and \$9,544 for Mr. McGill and (v) none, \$346 and \$9,946 for Ms. McJohn for 2002, 2003 and 2004, respectively; (b) cash payments relating to unused vacation time accrued in the previous calendar year of (i) none and \$9,014 for Mr. Gamache, (ii) \$4,760 and \$5,769 for Mr. Edidin, (iii) none and \$5,481 for Mr. Schweinfurth and (iv) none and \$4,615 for Mr. McGill for 2003 and 2004, respectively; (c) \$534,707, \$237,648 and \$237,648 accrued for Mr. Gamache for 2002, 2003 and 2004, respectively, for death, disability and retirement benefits; and (d) \$850 and \$2,588 paid in each of 2002, 2003 and 2004 for life insurance premiums for Mr. Edidin and Mr. Schweinfurth, respectively. See also Employment Agreements .
- (4)

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Amount reported also includes amounts accrued during fiscal 2002 for death, disability and retirement benefits for June 15, 2001 to June 30, 2001.

- (5) Ms. McJohn was hired on January 27, 2003.

**Table of Contents****Stock Options**

The following table sets forth information about options to purchase common stock that we granted in fiscal 2004 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	25,000(1)	3.3%	\$24.83	9/18/2013	\$390,386	\$989,316
	7,500(2)	1.0	28.47	5/10/2014	134,285	340,304
Orrin J. Edidin	5,000(2)	0.7	28.47	5/10/2014	89,523	226,869
Scott D. Schweinfurth	5,000(2)	0.7	28.47	5/10/2014	89,523	226,869
Seamus M. McGill	4,000(2)	0.6	28.47	5/10/2014	71,619	181,495
Kathleen J. McJohn	2,500(2)	0.3	28.47	5/10/2014	44,762	113,435

(1) This option is currently exercisable.

(2) This option becomes exercisable on May 10, 2005.

The following table sets forth information about the exercise of options to purchase our common stock during fiscal 2004 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, 2004		Value of Unexercised In-the-Money Options at June 30, 2004(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Brian R. Gamache	84,998	\$1,455,430	430,000	67,502	\$4,735,075	\$1,261,767
Orrin J. Edidin	60,000	1,015,073	150,000	5,000	2,254,400	6,650
Scott D Schweinfurth			200,000	5,000	3,338,150	6,650
Seamus M. McGill	50,500	924,056	118,750	4,000	1,806,756	5,320
Kathleen J. McJohn			16,250	40,000	305,500	708,325

(1) Based on the closing price of our common stock on the NYSE on June 30, 2004, which was \$29.80.

**Table of Contents****Equity Compensation Plan Information**

The following table sets forth, for our compensation plans under which shares of our common stock are authorized for issuance other than our tax-qualified 401(k) plan, the number of shares of our common stock subject to outstanding options, warrants and rights, including shares issued subject to restrictions, as of June 30, 2004.

**EQUITY COMPENSATION PLAN TABLE**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</b>
Equity compensation plans approved by stockholders	2,141,602(1)	\$ 19.80	255,525
Equity compensation plans not approved by stockholders	1,052,100(2)	17.35	27,936
<b>Total</b>	<b>3,193,702</b>	<b>18.72</b>	<b>283,461</b>

(1) Consists of options granted under our 1991, 1994, 2000 and 2002 stock option plans.

(2) Consists of options granted our 1998 and 2000 Non-Qualified Stock Option Plans. Does not include 52,312 shares of restricted stock issued with a weighted average fair value of \$28.73 per share (calculated at the grant date) under our Treasury Share Bonus Plan which are currently subject to restrictions that will lapse on May 10, 2005 subject to the holders' continued employment by our company.

*1998 Non-Qualified Stock Option Plan*

Our Compensation Committee is the plan administrator of our 1998 Non-Qualified Stock Option Plan under which 1,000,000 shares were reserved for issuance in the form of non-qualified stock options or stock appreciation rights to our employees, directors, consultants or advisors. The Compensation Committee determines which of the eligible directors, officers, employees, consultants and advisors receive grants of stock options, the terms of the options, including the number of shares for which options are granted and the applicable vesting periods. The exercise price per share is determined by the Compensation Committee and generally is not less than the fair market value of our common stock on the date that the option is granted. The expiration date of this plan is May 13, 2008, but this plan will be terminated earlier if the 2005 Incentive Plan is ratified by our stockholders.

*2000 Non-Qualified Stock Option Plan*

Our Compensation Committee is the plan administrator of our 2000 Non-Qualified Stock Option Plan under which 1,750,000 shares were reserved for issuance in the form of non-qualified stock options to our employees, directors, consultants or advisors. The Compensation Committee determines which of the eligible directors, officers, employees, consultants and advisors receive grants of stock options, the terms of the options, including the number of shares for which options are granted and the applicable vesting periods. The exercise price per share is determined by the Compensation Committee and generally is not less than the fair market value of our common stock on the date that the option is granted. The expiration date of this plan is April 17, 2010, but this plan will be terminated earlier if the 2005 Incentive Plan is ratified by our stockholders.

*Treasury Share Bonus Plan*

Our Treasury Share Bonus Plan for key employees covers 64,312 shares of common stock held in the treasury, of which none remained available for grant on June 30, 2004. On May 10, 2004, a total of 52,312 shares of restricted stock were granted under the Treasury Share Bonus Plan to our executive officers and other vice presidents in lieu of any cash bonuses for fiscal 2004. The restrictions on these shares will lapse



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on May 10, 2005 subject to the holders' continued employment with us. The shares have a weighted average fair value, calculated at the grant date, of \$28.73 per share or \$1.5 million in the aggregate.

*Deferred Compensation Plan*

We also have adopted an unfunded nonqualified deferred compensation plan that is intended to help participants supplement their savings and retirement income by allowing them to defer a portion of their pre-tax compensation in excess of the limitations on their contributions to our tax-qualified 401(k) plan and to defer taxation on earnings. We also make matching contributions to participants' accounts. Currently, our executive officers and other selected personnel earning at least \$200,000 per year are eligible to participate in the plan, but our Compensation Committee may change who is selected to participate including inviting directors to participate.

Currently, under the plan, participants may defer up to 50% of their base salary in excess of \$205,000 and 100% of their bonus to the extent their total compensation exceeds \$205,000, but the Compensation Committee may modify the limitations on amounts deferred. Earnings or losses on contributions are indexed to investment options that the participants select for their own accounts. The participants elect the length of the deferral and the schedule of payouts from their accounts. The deferrals are subject to FICA tax, but not federal or state income taxes, when deferred, and the distributions are treated as ordinary income and are subject to federal and state income tax, but not FICA tax. The Plan became effective on December 1, 2003.

The recently enacted American Jobs Creation Act of 2004 (the "Jobs Act") placed restrictions on how deferral elections may be made under the Plan and how distributions may be made under the Plan. These restrictions may require that certain amendments be made to the Plan in 2005, following issuance of guidance from the Internal Revenue Service on the Jobs Act's deferred compensation provisions.

**REPORT OF THE COMPENSATION COMMITTEE**

**ON FISCAL 2004 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 so as to motivate them to devote their full energies to our success, to reward them for their services and to align their interests with the interests of our stockholders. Our executive compensation packages are comprised primarily of base salaries, annual contractual and discretionary cash bonuses, stock options and stock grants, and retirement and other benefits. It is the philosophy of the Compensation Committee that WMS be staffed with a small number of well-compensated executive officers and other senior management personnel. In establishing compensation levels, we consider compensation paid by our principal competitors.

Our President and CEO, Brian R. Gamache, receives a salary and is entitled to receive a bonus calculated based on a percentage of our pre-tax income and various retirement and other benefits, under a negotiated formula set forth in his employment agreement. Mr. Gamache's employment agreement also provides for discretionary cash bonuses and reflects the same compensation philosophy described above.

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 amount of any discretionary bonus is subjective but is generally based on our actual financial performance in the preceding fiscal year, the special contribution of the executive to our performance and the overall level of the executive's compensation including other elements of the compensation package. Contractual bonuses are likewise designed to give effect to one or more of these factors. In fiscal 2004, Mr. Gamache received a bonus of \$350,000, Mr. Edidin received a bonus of \$106,308, Mr. Schweinfurth received a bonus of \$60,436 and Mr. McGill received a bonus of \$6,798.

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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, and in the past two years restricted stock grants, 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 without assigning specific weight to any of these factors. In fiscal 2004, Mr. Gamache received options to purchase 25,000 shares of our common stock with an exercise price of \$24.83 that were immediately exercisable and options to purchase 7,500 shares of our common stock at an exercise price of \$28.47 that will become exercisable upon the first anniversary of the date of grant. The other executive officers received options to purchase between 2,500 and 5,000 shares of our common stock at an exercise price of \$28.47 that will become exercisable upon the first anniversary of the date of grant.

In fiscal 2004, the Board of Directors, upon the recommendation of the Compensation Committee, also approved a grant of restricted stock to each of our executive officers in recognition of their substantial time and efforts in the implementation of our technology improvement plan. Mr. Gamache received 12,312 shares of restricted stock. The other executive officers received a grant of between 2,500 and 7,500 shares. The restricted shares will vest on May 10, 2005, subject to each individual's continued employment with WMS.

The Omnibus Budget Reconciliation Act of 1993 (the Budget Act) 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 the Budget Act includes, among other things, base salary, incentive compensation and gains on stock option transactions. Total compensation of some of our officers may be paid under plans or agreements that have not been approved by stockholders 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 the Budget Act will affect our compensation plans and contractual and discretionary cash compensation.

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

William C. Bartholomay, Chairman

William E. McKenna

Harvey Reich



**Table of Contents****CORPORATE PERFORMANCE GRAPH**

The following graph compares, for the five fiscal years ended June 30, 2004, 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, 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, 1999 including reinvestment of dividends where applicable.

**COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN**

	<b>1999</b>	<b>200</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
WMS	\$ 100.00	\$ 90.81	\$ 189.24	\$ 72.06	\$ 91.71	\$ 175.29
S&P 500	\$ 100.00	\$ 107.25	\$ 91.34	\$ 74.91	\$ 75.10	\$ 89.45
Peer Group	\$ 100.00	\$ 157.05	\$ 304.78	\$ 278.72	\$ 416.72	\$ 657.23

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**EMPLOYMENT AGREEMENTS**

We employ Brian R. Gamache under the terms of an agreement dated June 15, 2001, as amended. He receives salary at the rate of \$625,000 per year. Mr. Gamache is entitled to receive a bonus in an amount equal to the lesser of \$1 million or 1% of our pre-tax income and such other discretionary cash bonuses and special bonuses that may be determined by the Board of Directors. Mr. Gamache may participate in all benefit plans and perquisites generally available to our senior executives. The agreement is subject to automatic rolling extensions so that the term of Mr. Gamache's employment shall at no time be less than three years.

Mr. Gamache is also entitled to receive an option to acquire 100,000 shares of our common stock each fiscal year in which our diluted earnings per share equals or exceeds 1.15 times our earnings per share for the previous fiscal year. These options will vest as to one-third of the grant on each anniversary of the grant over three years. For fiscal 2004, Mr. Gamache became entitled to receive these options in August 2004. However, in view of the limited number of shares available for grant under our existing stock option plans and our proposal of the 2005 Incentive Plan for consideration by our stockholders at the annual meeting, Mr. Gamache offered to postpone the grant of these options to him until after our stockholders have considered the 2005 Incentive Plan. If the 2005 Incentive Plan is approved by our stockholders, Mr. Gamache will be granted his options to acquire 100,000 shares of our common stock no later than December 31, 2004. The options will be exercisable for one-third of the underlying shares on August 11, 2005, an additional one-third on August 11, 2006 and the rest of the shares on August 11, 2007. The option will have an exercise price of the higher of the closing price of our common stock on the date of grant and \$23.46, which represents the closing price of our common stock on August 11, 2004, the date Mr. Gamache agreed to defer the grant. If the exercise price is greater than \$23.46, then we will make a cash payment to Mr. Gamache equal to the difference multiplied by 100,000, subject to any required withholding. If for any reason our stockholders do not approve the new plan on or before December 31, 2004, we will negotiate with Mr. Gamache to make him economically whole as if the options had been granted to him on August 11, 2004 without this deferral.

Upon the termination of Mr. Gamache's employment for any reason, whether by us or Mr. Gamache, Mr. Gamache will receive the retirement benefits, payable in installments, specified under his employment agreement which are equal to one-half of Mr. Gamache's salary at the time of retirement 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 his 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 Mr. Gamache's employment agreement for cause, which includes dishonesty or failure to follow the reasonable direction of our Board of Directors. Mr. Gamache may elect to terminate his employment agreement 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 positions, (d) the discontinuance or reduction of his base salary, (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 such event or wrongful termination, 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 one year's base salary and one year's bonus; and (z) the retirement benefits which would have been payable in the event of retirement on the date of termination.

Mr. Gamache also may terminate his employment agreement if 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. If such a change of control occurs and Mr. Gamache gives timely notice: (a) all of Mr. Gamache's unvested stock options will immediately vest; (b) he will be

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required to pay him a lump sum of three times his base salary and annual bonus; (c) all of his retirement benefits would be payable as if he had retired on the date of such change of control; and (d) all health benefits provided to Mr. Gamache under the agreement shall continue for 18 months thereafter. All of Mr. Gamache's unexpired unvested options 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) any change of control, including 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 July 16, 2001.

If payments made to Mr. Gamache under his employment 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 May 8, 2000, as amended. Mr. Edidin receives a salary of \$400,000 per year. Mr. Edidin may receive annual discretionary bonuses of up to 75% of his base salary, depending on performance criteria. Additionally, Mr. Edidin may participate in all benefit plans and perquisites generally available to executive employees and is provided with life insurance coverage in the amount of \$1,000,000 or whatever lesser amount is available at an annual premium not to exceed \$3,000. His agreement is subject to automatic rolling extensions so that the term of Mr. Edidin's employment shall at no time be less than three years. We may terminate the agreement upon 30 days written notice for cause. His employment agreement may also be terminated at the election of Mr. Edidin upon 30 days written notice for material breach. It may also be terminated by Mr. Edidin 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. Edidin gives us notice of termination within 60 days, then in lieu of any other rights under his agreement, all of Mr. Edidin's unvested stock options will immediately vest, and we will be required to pay him a lump sum of three times his base salary.

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. Edidin's unexpired unvested options immediately vest. If the agreement terminates by reason of death, disability or material breach by us, or if we terminate the agreement other than for cause, we are required to pay Mr. Edidin or his legal representatives an amount equal to all cash compensation that would otherwise be payable to him until the expiration of the extended term of the agreement. If any portion of the amount paid to Mr. Edidin is subject to the excise tax imposed by Section 4999 of the Code, then additional compensation is required to be paid to him to the extent necessary to eliminate the economic effect on him of the resulting excise tax.

We employ Scott D. Schweinfurth under the terms of an agreement dated as of May 19, 2000, as amended. Mr. Schweinfurth receives a salary of \$380,000 per year. Mr. Schweinfurth may receive annual discretionary bonuses of up to 75% of his base salary, depending on performance criteria. Additionally, Mr. Schweinfurth may participate in all benefit plans and perquisites generally available to executive employees and is provided with life insurance coverage in the amount of \$1,000,000 or whatever lesser amount is available at an annual premium not to exceed \$3,000. His agreement is subject to automatic rolling extensions so that the term of Mr. Schweinfurth's employment shall at no time be less than three years. We may terminate the agreement upon 30 days written notice for cause. His employment agreement may also be terminated at the election of Mr. Schweinfurth upon 30 days written notice for material breach. It may also be

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terminated by Mr. Schweinfurth 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. Schweinfurth gives us notice of termination within 60 days, then in lieu of any other rights under his agreement, all of Mr. Schweinfurth's unvested stock options will immediately vest, and we will be required to pay him a lump sum of three times his base salary.

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. Schweinfurth's unexpired unvested options immediately vest. If the agreement terminates by reason of death, disability or material breach by us, or if we terminate the agreement other than for cause, we are required to pay Mr. Schweinfurth or his legal representatives an amount equal to all cash compensation that would otherwise be payable to him until the expiration of the extended term of the agreement. If any portion of the amount paid to Mr. Schweinfurth is subject to the excise tax imposed by Section 4999 of the Code, then additional compensation is required to be paid to him to the extent necessary to eliminate the economic effect on him of the resulting excise tax.

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 \$320,000 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.

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 \$255,000 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.

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**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. Three of our directors are also directors of Midway: Messrs. Bach, Bartholomay and Sheinfeld. The remaining material agreements between Midway and us 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 is 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, sets forth the parties' respective liabilities for federal, state and local taxes, among other things, including: (a) the filing of tax returns with federal, state and local authorities; (b) the carryover of any tax benefits of Midway; (c) the treatment of the deduction attributable to the exercise of stock options to purchase our common stock which are held by employees or former employees of Midway and any other similar compensation related tax deductions; (d) the treatment of certain net operating loss carrybacks; (e) the treatment of audit adjustments; and (f) procedures with respect to any proposed audit adjustment or other claim made by any taxing authority with respect to a tax liability of Midway or any of its subsidiaries.

*Tax Sharing Agreement.* This agreement is dated July 1, 1996 and remains in effect, except to the extent described in the Tax Separation Agreement referred to above. Under this agreement, WMS and Midway have agreed upon a method for: (a) determining the amount which Midway must pay to WMS in respect of federal income taxes; (b) compensating any member of the WMS group for use of its net operating losses, tax credits and other tax benefits in arriving at the WMS group tax liability as determined under the federal consolidated return regulations; and (c) providing for the receipt of any refund arising from a carryback of net operating losses or tax credits from subsequent taxable years and for payments upon subsequent adjustments.

In fiscal 2003, we wrote off a \$4.0 million tax advance receivable from Midway that had arisen under the tax sharing and separation agreements. We made the advance to Midway because our net operating loss carry-backs for pre-spinoff years prevented Midway from realizing tax benefits of carrying back its post spinoff net operating losses to pre-spinoff years. The advance represented an adjustment to the spinoff value of Midway, which was treated as a tax-free dividend to our stockholders at the spinoff date. The amount of the advance is repayable by Midway under the agreements upon Midway's return to profitability for tax purposes, which would enable Midway to realize the tax benefit on its tax returns. We wrote off the advance because of the uncertainty of the payback period from Midway of the advance.

In fiscal 2003, we also recorded a \$2.8 million reversal of stock option benefits relating to the exercise of our stock options by Midway employees in fiscal 2000 and 1999. Under the terms of the tax sharing agreement, we paid the \$2.8 million to Midway in fiscal 2000 because Midway did not receive the full tax benefit of its post spinoff net operating losses caused by the provision in lieu benefits from the stock option exercises. This amount is repayable by Midway under the agreements upon a change of control of Midway or on its return to profitability for tax purposes, which would enable Midway to realize the tax benefit on its tax returns. The reversal of the stock option benefit was because of the uncertainty of the payback period from Midway of the advance.

**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.

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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 the last fiscal year and have retained them for tax services during the current fiscal year.

Donna B. More, one of our directors, was the principal partner of the More Law Group law firm during fiscal 2004, which subsequently merged into the Chicago office of Greenberg Traurig LLP. We retained the More Law Group to provide gaming regulatory legal services during fiscal 2004 and have retained Greenberg Traurig LLP for gaming regulatory legal services during the current fiscal year. We paid the More Law Group \$18,820 in fiscal 2004 for gaming regulatory legal services.

In August 2003, William C. Bartholomay, one of our directors, joined 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 William T. Bartholomay in the position of Director of New Market Development. William T. Bartholomay is the son of our director, William C. Bartholomay. In fiscal 2004, we paid William T. Bartholomay compensation including salary of \$92,500 and granted 1,500 stock options to him.

### **PROPOSAL 2 RATIFICATION OF 2005 INCENTIVE PLAN**

At the annual meeting, stockholders will be asked to ratify the WMS Industries Inc. 2005 Incentive Plan (the 2005 Incentive Plan ), which was approved by our Board of Directors on October 15, 2004. The effective date of the 2005 Incentive Plan will be the date it is approved by our stockholders. If approved by our stockholders, the 2005 Incentive Plan will replace our 2002, 2000, 1994, and 1991 Stock Option Plans, our 2000 and 1998 Non-Qualified Stock Option Plans and our Treasury Share Bonus Plan (the Preexisting Plans ). If our stockholders ratify the 2005 Incentive Plan, a maximum of 6,389,620 shares of our common stock will be available for issuance under the Plan, representing the sum of (i) 2,313,706 new shares to be made available under the 2005 Incentive Plan, (ii) any shares remaining under the Preexisting Plans as of the effective date of the 2005 Incentive Plan which are not subject to outstanding awards (amounting to 69,661 shares as of October 20, 2004) and (iii) shares subject to outstanding awards under the Preexisting Plans as of the effective date of the 2005 Incentive Plan (amounting to 4,006,253 shares as of October 20, 2004) which may become available under the 2005 Incentive Plan in the event of expiration, termination or forfeiture of any outstanding award. The shares available for grants under the Preexisting Plans will no longer be available under the Preexisting Plan, but will instead be available under the 2005 Incentive Plan. For information on the number of shares subject to outstanding options, warrants, and rights and other awards under our Preexisting Plans, see Executive Compensation Compensation Plans Equity Table above.

The Board and Compensation Committee (the Committee ) believe that attracting and retaining executives, other key employees, non-employee directors and key consultants of high quality has been and will continue to be essential to our growth and success. The 2005 Incentive Plan, like the Preexisting Plans, will assist us in implementing a compensation program with a broad range of incentives for motivating our employees, officers, directors and consultants and encouraging them to use their best efforts on our behalf. Stock options, restricted stock, cash incentives and stock-related awards are an important element of compensation for employees and directors, because such awards enable them to acquire or increase their proprietary interest in us or directly benefit from our success and thereby promote a closer alignment of interests between them and our stockholders. Annual incentive awards and other performance-based awards provide rewards for achieving specific performance objectives, such as earnings goals. The ability to grant such awards as compensation under the 2005 Incentive Plan will help us to remain competitive and provide an increased incentive for each person granted an award to expend his or her maximum efforts for the success of the our business. The Board and Committee therefore view the 2005 Incentive Plan as being in our best interests.

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The 2005 Incentive Plan authorizes a broad range of awards, including:

stock options;

stock appreciation rights ( SARs );

restricted stock (a grant of actual shares subject to a risk of forfeiture and restrictions on transfer);

deferred stock (a contractual commitment to deliver shares at a future date; if such a grant is forfeitable, it may be referred to as restricted stock units );

other awards based on our common stock;

dividend equivalents;

stock-based performance awards, which are in effect deferred stock awards that may be earned by achieving specific performance objectives;

cash-based performance awards tied to achievement of specific performance objectives; and

shares issuable in lieu of rights to cash compensation, including under our elective non-qualified deferred compensation plan.

If the 2005 Incentive Plan is ratified by our stockholders, no new awards will be made under the Preexisting Plans. Awards previously issued under any Preexisting Plan will remain in effect and be subject to the terms of such Preexisting Plan, as applicable. If such awards expire unexercised, are terminated or forfeited, the shares subject to those awards will become available for awards under the 2005 Incentive Plan.

**Reasons for Stockholder Ratification**

The Board seeks stockholder ratification of the 2005 Incentive Plan in order to satisfy the NYSE requirement that equity compensation plans be submitted to stockholders for their approval. In addition, stockholder ratification is necessary in order to preserve our ability to claim tax deductions for compensation paid, to the greatest extent allowable under the tax laws.

**Description of the 2005 Incentive Plan**

The following is a brief description of the material features of the 2005 Incentive Plan. This description is qualified in its entirety by reference to the full text of the 2005 Incentive Plan, a copy of which is attached to this proxy statement as Appendix B.

*Shares Available for Grant under the 2005 Incentive Plan.* We will reserve a maximum of 6,389,620 shares under the 2005 Incentive Plan, consisting of (i) 2,319,706 new shares of Common Stock, (ii) any shares remaining under the Preexisting Plans as of the effective date of the 2005 Incentive Plan which are not subject to outstanding awards, and (iii) shares subject to outstanding awards under the Preexisting Plans as of the effective date of the 2005 Incentive Plan, which shares may become available for award under the 2005 Incentive Plan in the event of expiration, termination or forfeiture of such awards. Of the 2,319,706 new shares reserved for grant under the 2005 Incentive Plan, not more than 50% may be delivered in connection with full-value awards. For this purpose, full-value awards means equity awards other than options or SARs for which a participant does not pay or surrender rights to payment equal to at least the fair market value of the award determined at the date of grant. The number of shares reserved under the 2005 Incentive Plan is subject to adjustment in the event of stock splits, stock dividends, and other extraordinary events.

Only the number of shares actually delivered to and retained by participants in connection with an award after all restrictions have lapsed will be counted to reduce the number of shares reserved under the 2005 Incentive Plan. Thus, shares will become available again for new awards if an award expires, is forfeited, or is settled in cash, if shares are withheld or separately surrendered to pay the exercise price of an option or to satisfy tax withholding obligations relating to an award, if fewer shares are delivered upon exercise of a SAR than the number to which the SAR related, or if shares that had been issued as restricted stock are forfeited. Shares delivered under the 2005 Incentive Plan may be either newly issued or treasury shares.





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*Per-Person Award Limitations.* The 2005 Incentive Plan includes limitations on the amount of awards that may be granted to a participant in a given year in order to qualify awards as performance-based compensation not subject to the limitation on deductibility under Section 162(m) of the Code. Under this annual per-person limitation, a participant may in any year be granted share-based awards of each type authorized under the 2005 Incentive Plan—options, SARs, restricted stock, deferred stock, bonus stock or stock in lieu of other compensation obligations, dividend equivalents, and other stock-based awards—relating to no more than his or her Annual Limit. The Annual Limit equals 500,000 shares plus the amount of the participant’s unused Annual Limit relating to share-based awards as of the close of the previous year, subject to adjustment for splits and other extraordinary corporate events. With respect to incentive awards not valued by reference to our common stock at the date of grant, the 2005 Incentive Plan limits such performance awards that may be earned by a participant to the participant’s defined Annual Limit, which for this purpose equals \$3 million, plus the amount of the participant’s unused cash Annual Limit as of the close of the previous year. The per-person limits for each type of stock-based award are independent of the limit on cash-denominated performance awards. These limits apply only to awards under the 2005 Incentive Plan, and do not limit our ability to enter into compensation arrangements outside of the 2005 Incentive Plan. Non-employee directors may be granted awards relating to no more than 500,000 shares per year.

*Adjustments to Shares Reserved, Awards and Award Limits.* Adjustments to the number and kind of shares reserved under the 2005 Incentive Plan, the shares subject to the share limitations and the shares specified in the share-based Annual Limit are authorized in the event of a large, special or non-recurring dividend or distribution, recapitalization, stock split, stock dividend, reorganization, business combination, or other similar corporate transaction or event affecting our common stock. Adjustments also will be made to outstanding awards upon occurrence of these events, including to the number of shares subject to an award, any exercise price or share price referenced in the award terms (such as a SAR’s base price) and other terms of the award to preserve without enhancing the value of the award. The Committee is also authorized to adjust performance conditions and other terms of awards in response to these kinds of events or to changes in applicable laws, regulations, or accounting principles.

*Restriction on Repricing.* The 2005 Incentive Plan includes a restriction providing that, without stockholder approval, we will not amend or replace options previously granted under the Plan in a transaction that constitutes a repricing. For this purpose, a repricing means amending the terms of an option after it is granted to lower its exercise price, any other action that is treated as a repricing under generally accepted accounting principles, and canceling an option at a time when its strike price is equal to or greater than the fair market value of the underlying Stock, in exchange for another option (including on a delayed basis), restricted stock, or other equity, unless the cancellation and exchange occurs in connection with a merger, acquisition, spinoff or other similar corporate transaction. Adjustments to the exercise price or number of shares subject to an option to reflect the effects of a stock split or other extraordinary corporate transaction will not constitute a repricing.

*Eligibility.* As with our Preexisting Plans, our directors, officers, employees and key consultants will be eligible to be granted awards under the 2005 Incentive Plan. In addition, a prospective employee may be granted an award, but no value may be realized under it if such person does not become an employee.

*Administration.* The Committee will administer the 2005 Incentive Plan, except that the Board may itself act in place of the Committee to administer the 2005 Incentive Plan, and the Board must make determinations with respect to grants to non-employee directors. The members of the Committee must be non-employee directors. Subject to the terms and conditions of the 2005 Incentive Plan, the Committee is authorized to select participants, determine the type and number of awards to be granted and the number of shares to which awards will relate or the amount of an annual or long-term incentive award, specify times at which awards will be exercisable or settled, including performance conditions that may be required as a condition thereof, set other terms and conditions of such awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to the 2005 Incentive Plan, and make all other determinations which may be necessary or advisable for the administration of the 2005 Incentive Plan. Nothing in the 2005 Incentive Plan precludes the Committee from authorizing payment of other compensation, including bonuses based upon performance, to executive officers and other employees. The Committee is

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permitted to delegate authority to executive officers for the granting and administration of awards to the extent permitted under Section 157(c) of the Delaware General Corporation Law, but action pursuant to delegated authority generally will be limited to grants to employees who are below the executive officer level. The 2005 Incentive Plan provides that Committee members shall not be personally liable, and shall be fully indemnified, in connection with any action, determination, or interpretation taken or made in good faith under the 2005 Incentive Plan.

*Stock Options and SARs.* The Committee is authorized to grant non-qualified stock options. SARs may also be granted, entitling the participant to receive the excess of the fair market value of a share on the date of exercise over the SAR's designated base price. The exercise price of an option and the base price of a SAR are determined by the Committee, but generally may not be less than the fair market value of the shares on the date of grant (except as described below under *Other Terms of Awards*). The maximum term of each option or SAR will be ten years. Subject to this limit, the times at which each option or SAR will be exercisable and provisions requiring forfeiture of unexercised options at or following termination of employment or upon the occurrence of other events generally are fixed by the Committee. Options may be exercised by payment of the exercise price in cash, shares or other property (which may include through broker-assisted cashless exercise procedures) or by surrender of other outstanding awards having a fair market value equal to the exercise price. Methods of exercise and settlement and other terms of SARs will be determined by the Committee. SARs may be exercisable for shares or for cash, as determined by the Committee.

*Restricted and Deferred Stock/Restricted Stock Units.* The Committee is authorized to grant restricted stock and deferred stock/ restricted stock units. Prior to the end of the restricted period, shares granted as restricted stock may not be sold, and will be forfeited in the event of termination of employment in specified circumstances. The Committee will establish the length of the restricted period for awards of restricted stock, provided that if the granting or vesting is tied to performance conditions, the minimum vesting period of such awards shall be no less than one year, and if neither the granting nor vesting is tied to performance conditions, then such awards shall have a minimum vesting period of no less than three years. Aside from the risk of forfeiture and non-transferability, an award of restricted stock entitles the participant to the rights of a stockholder of WMS, including the right to vote the shares and to receive dividends, unless otherwise determined by the Committee.

Deferred stock gives a participant the right to receive shares at the end of a specified deferral period. Deferred stock subject to forfeiture conditions may be denominated as an award of restricted stock units. The Committee will establish any vesting requirements for deferred stock/restricted stock units granted for continuing services. One advantage of restricted stock units, as compared to restricted stock, is that the period during which the award is deferred as to settlement can be extended past the date the award becomes non-forfeitable, so the Committee can require or permit a participant to continue to hold an interest tied to our common stock on a tax-deferred basis. Prior to settlement, deferred stock awards, including restricted stock units, carry no voting or dividend rights or other rights associated with stock ownership, but dividend equivalents will be paid or accrue if authorized by the Committee.

*Other Stock-Based Awards, Stock Bonus Awards, and Awards in Lieu of Other Obligations.* The 2005 Incentive Plan authorizes the Committee to grant awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to our common stock. The Committee will determine the terms and conditions of such awards, including the consideration to be paid to exercise awards in the nature of purchase rights, the periods during which awards will be outstanding, and any forfeiture conditions and restrictions on awards. In addition, the Committee is authorized to grant shares as a bonus free of restrictions, or to grant shares or other awards in lieu of obligations under other plans or compensatory arrangements, subject to such terms as the Committee may specify.

*Performance-Based Awards.* The Committee may grant performance awards, which may be cash-denominated awards or share-based awards. Generally, performance awards require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria as a condition of awards being granted or becoming exercisable or settleable, or as a condition to accelerating the timing of such events. Performance may be measured over a period of any

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length specified by the Committee. If so determined by the Committee, in order to avoid the limitations on tax deductibility under Section 162(m) of the Code (see *Federal Income Tax Implications of the 2005 Incentive Plan* below), the business criteria used by the Committee in establishing performance goals applicable to performance awards to the chief executive officer and the four other most highly compensated executive officers serving on the last day of the fiscal year (generally referred to as the *named executive officers* ) will be selected from among the following: (1) revenues; (2) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, incentives, service fees or extraordinary or special items; (3) net income or net income per common share (basic or diluted); (4) return on assets, return on net assets, return on investment, return on capital, or return on equity; (5) cash flow, free cash flow, cash flow return on investment, or net cash provided by operations; (6) economic value created or added; (7) operating margin or profit margin; (8) stock price, dividends or total stockholder return; and (9) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration or value added, product development or introduction, geographic business expansion goals, cost targets, debt reduction, customer satisfaction, employee satisfaction, information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures.

These goals may be set with fixed, quantitative targets, targets relative to our past performance, or targets compared to the performance of other companies, such as a published or special index or a group of companies selected by the Committee for comparison. The Committee may specify that these performance measures will be determined before payment of bonuses, capital charges, non-recurring or extraordinary income or expense, or other financial and general and administrative expenses for the performance period.

*Annual Incentive Awards.* One type of performance award that may be granted under the 2005 Incentive Plan is Annual Incentive Awards, settleable in cash or in shares upon achievement of preestablished performance objectives achieved during a specified period of up to one year. The Committee generally must establish the terms of annual incentive awards, including the applicable performance goals and the corresponding amounts payable (subject to per-person limits), and other terms of settlement, and all other terms of these awards, not later than 90 days after the beginning of the performance period. As stated above, annual incentive awards granted to named executives are intended to constitute performance-based compensation not subject to the limitation on deductibility under Code Section 162(m). In order for such an annual incentive award to be earned, one or more of the performance objectives described above will have to be achieved. The Committee may specify additional requirements for the earning of such awards.

*Dividend Equivalents.* The Committee may grant dividend equivalents. These are rights to receive payments equal in value to the amount of dividends paid on a specified number of shares of our common stock while an award is outstanding. These amounts may be in the form of cash or rights to receive additional Awards or additional shares of our common stock having a value equal to the cash amount. The awards may be granted on a stand-alone basis or in conjunction with another award. Typically, rights to dividend equivalents are granted in connection with restricted stock units or deferred stock, so that the participant can earn amounts equal to dividends paid on the number of shares covered by the award while the award is outstanding.

*Other Terms of Awards.* Awards may be settled in cash, shares, other awards or other property, in the discretion of the Committee. The Committee may require or permit participants to defer the settlement of all or part of an award, including shares issued upon exercise of an option, in accordance with such terms and conditions as the Committee may establish, including payment or crediting of interest or dividend equivalents on any deferred amounts. The Committee is authorized to place cash, shares or other property in trusts or make other arrangements to provide for payment of our obligations under the 2005 Incentive Plan. The Committee may condition awards on the payment of taxes, such as by withholding a portion of the shares or other property to be distributed in order to satisfy tax obligations. Awards granted under the Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Committee may permit transfers of awards on a case-by-case basis. This flexibility can allow for estate planning or other limited transfers consistent with the incentive purpose of the Plan.

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The Committee is authorized to impose non-competition, non-solicitation, confidentiality, non-disparagement and other requirements as a condition on the participant's right to retain an award or gains realized by exercise or settlement of an award. Awards under the 2005 Incentive Plan may be granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. Subject to the restrictions on repricing described above, the Committee may, however, grant awards in substitution for, exchange for or as a buyout of other awards under the 2005 Incentive Plan, awards under our other plans, or other rights to payment, and may exchange or buy out outstanding awards for cash or other property. The Committee also may grant awards in addition to and in tandem with other awards or rights. In granting a new award, the Committee may determine that the in-the-money value of any surrendered award may be applied to reduce the exercise price of any option, base price of any SAR, or purchase price of any other award.

*Vesting, Forfeitures, and Related Award Terms.* The Committee may, in its discretion, determine the vesting schedule of options and other awards, the circumstances that will result in forfeiture of awards, the post-termination exercise periods of options and similar awards, and the events that will result in acceleration of the ability to exercise and the lapse of restrictions, or the expiration of any deferral period, on any award.

Except as otherwise waived or agreed to by the Committee, an award will be forfeited, and gains may have to be repaid to us by a participant, if any of the following occur during the participant's employment by us or within one year after termination: (a) the participant competes with us, induces a customer, supplier, licensee or licensor to curtail business with us or solicits any employee or service provider to terminate employment with or service to us; (b) the participant misuses our confidential information; or (c) the participant fails to reasonably assist us in a legal proceeding.

Upon a change in control, as defined in the 2005 Incentive Plan, unless the Committee provides otherwise in the grant agreement, non-performance based awards will become vested and exercisable or fully payable, and restrictions thereon will lapse, any option that was not vested and exercisable as of the time of the change in control may be surrendered for a cash payment equal to the spread between the exercise price and the price per share paid in the transaction triggering the change in control. The Committee may also specify in any award agreement for performance based awards that performance conditions will be deemed met upon a change in control.

*Amendment and Termination of the 2005 Incentive Plan.* The Board may amend, suspend, discontinue, or terminate the 2005 Incentive Plan or the Committee's authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under the NYSE rules. Unless earlier terminated, the 2005 Incentive Plan will terminate at such time that no shares reserved under the 2005 Incentive Plan remain available, and we have no further obligation with respect to any outstanding award.

**Federal Income Tax Implications of the 2005 Incentive Plan**

The following is a summary of Federal income tax consequences that generally would arise with respect to awards under the 2005 Incentive Plan under current law, subject to the discussion of the Jobs Act below. The grant of an option or a SAR will create no federal income tax consequences for the participant or us. Upon exercising an option, the participant generally must recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable and nonforfeitable shares acquired on the date of exercise. Upon exercising a SAR, the participant must generally recognize ordinary income equal to the cash or the fair market value of the shares received.

A participant's sale of shares acquired by exercise of an option generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax basis in such shares. The tax basis normally is the exercise price plus any amount he or she recognized as ordinary income in connection with the option's exercise. A participant's sale of shares acquired by exercise of a SAR generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the tax basis in the shares, which generally is the amount he or she recognized as ordinary income in connection with the SAR's exercise.

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We normally can claim a tax deduction equal to the amount recognized as ordinary income by a participant in connection with an option or SAR, but no tax deduction relating to a participant's capital gains. We may, however, permit participants to elect to defer taxation upon certain exercises of options. Under such a transaction, the participant must pay for the option exercise by surrendering shares, and the option shares that represent the gain upon exercise are deferred as to delivery by WMS. The participant generally should not realize income upon exercise, but will realize ordinary income equal to the value of shares delivered at the end of the specified deferral period. We are not entitled to a tax deduction at the time of exercise but become entitled to a tax deduction at the time shares are delivered at the end of the deferral period. As described below, however, provisions included in the Jobs Act may limit this kind of deferral.

With respect to awards other than options and SARs that result in a transfer to the participant of cash or shares or other property, if no restriction on transferability or substantial risk of forfeiture applies to the transferred amounts, the participant generally must recognize ordinary income equal to the cash or the fair market value of shares or other property actually received. Thus, for example, if we grant an award of deferred stock or permit the participant to elect to defer receipt of cash or shares under a Plan award, the participant will defer the time he or she becomes subject to income tax, and our right to claim a tax deduction will be likewise deferred. If a restriction on transferability and substantial risk of forfeiture applies to shares or other property transferred to a participant under an award (such as, for example, restricted stock), the participant generally must recognize ordinary income equal to the fair market value of the transferred amounts at the earliest time either the transferability restriction or risk of forfeiture lapses. In all cases, we can claim a tax deduction in an amount equal to the ordinary income recognized by the participant, except as discussed below. A participant may elect to be taxed at the time of grant of restricted stock or other property rather than upon lapse of restrictions on transferability or the risk of forfeiture, but if the participant subsequently forfeits such shares or property he or she would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which he or she previously paid tax.

The Jobs Act may limit the ability to defer tax on certain kinds of nonqualified deferred compensation. Certain awards under the 2005 Incentive Plan, including SARs, deferred stock and performance awards, may be affected by this legislation. Under the Jobs Act, an award of nonqualified deferred compensation that fails to meet certain requirements will be currently includible in the income of a participant as soon as the award is not subject to a substantial risk of forfeiture. The requirements are generally that (1) the plan must provide that deferred compensation may not be distributed earlier than a time (or pursuant to a fixed schedule) provided under the plan at the date of the deferral of such compensation, or upon separation from service, death, disability, or certain other circumstances (including a change in control); (2) the plan may not permit the acceleration of the time or schedule of any payment thereunder; and (3) the initial deferral election must be made not later than the close of the taxable year preceding the taxable year in which the services giving rise to the compensation are first performed or at such other time provided in regulations, subject to various exceptions.

Section 162(m) of the Internal Revenue Code limits the deductions that a publicly held company can claim for compensation in excess of \$1 million in a given year paid to the named executive officers. Performance-based compensation that meets specified requirements is not counted against the \$1 million deductibility cap, and therefore remains fully deductible. Under the 2005 Incentive Plan, options and SARs granted with an exercise price or base price at least equal to 100% of fair market value of the underlying stock at the date of grant, annual incentive awards to employees whom the Committee expects to be named executive officers at the time compensation is received and other awards that are conditioned upon achievement of performance goals are intended to qualify as performance-based compensation. A number of requirements must be met in order for particular compensation to so qualify, however, so there can be no assurance that such compensation under the 2005 Incentive Plan will be fully deductible under all circumstances. In addition, other awards under the 2005 Incentive Plan generally will not so qualify, so that compensation paid to certain executives in connection with such awards may, to the extent it and other compensation subject to Section 162(m)'s deductibility cap exceed \$1 million in a given year, not be deductible by us as a result of Section 162(m).

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We are seeking stockholder ratification of the material terms of performance awards under the 2005 Incentive Plan, including annual incentive awards, to named executive officers in order to meet a key requirement for such awards to qualify as performance-based under Section 162(m). If the 2005 Incentive Plan is ratified by stockholders, annual incentive awards granted under the Plan to named executives generally will be payable only upon achievement of pre-established performance goals relating to our business as a whole or specific business units for which the individual executive has principal responsibility.

For purposes of Section 162(m) of the Code, ratification of the 2005 Incentive Plan will be deemed to include approval of (a) the eligibility of executive officers and other employees, directors and service providers to participate in the Plan, (b) the annual per-person limitations described above under the caption Per-Person Award Limitations, (c) the general business criteria upon which performance objectives for performance awards, including annual incentive awards, are based, described above and (d) the stock-price appreciation performance goal inherent in stock options and SARs. Because stockholder approval of general business criteria, without specific targeted levels of performance, qualifies incentive awards for a period of approximately five years, stockholder approval of such business criteria will meet the requirements under Section 162(m) through 2009. Stockholder approval of the performance goal inherent in stock options and SARs (increases in the market price of stock) is not subject to a time limit under Section 162(m).

The foregoing provides only a general description of the application of federal income tax laws to awards under the 2005 Incentive Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to participants in the 2005 Incentive Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement. Different tax rules may apply, including in the case of variations in transactions that are permitted under the 2005 Incentive Plan (such as payment of the exercise price of an option by surrender of previously acquired shares). The summary does not address the effects of other federal taxes (including possible golden parachute excise taxes) or taxes imposed under state, local, or foreign tax laws.

### **New Plan Benefits Under the 2005 Incentive Plan**

Because most future awards under the 2005 Incentive Plan will be granted in the discretion of the Committee, the type, number, recipients, and other terms of such awards cannot be determined at this time. Information regarding our recent practices with respect to annual incentive awards and stock-based compensation under the similar Preexisting Plans is presented in the Summary Compensation Table elsewhere in this Proxy Statement and in our financial statements for the fiscal year ended June 30, 2004, in the Annual Report which accompanies this Proxy Statement.

Under his employment agreement, in September 2004, our Chief Executive Officer became entitled to a grant of options to purchase 100,000 shares of our common stock in respect of our 2004 fiscal year. We have agreed to issue those options to Mr. Gamache under the 2005 Incentive Plan if the 2005 Incentive Plan is ratified by our stockholders. See Executive Compensation Employment Agreements above. We have made no other commitments for awards under the 2005 Incentive Plan, except that we have indicated to certain new employees and recently promoted employees that we would recommend that the Board, after receipt of stockholder approval of the 2005 Incentive Plan, grant options to acquire an aggregate of 228,500 shares of common stock to such employees. If the 2005 Incentive Plan is not ratified, we will not be able to make these grants because we do not have sufficient shares available under our Preexisting Plans to grant all of those options, but our Preexisting Plans will remain in effect.

### **Vote Required for Ratification**

Our Board of Directors believes the 2005 Incentive Plan to be in our best interests and recommends that the stockholders ratify the 2005 Incentive Plan. We will submit the following resolution to the stockholders for ratification at the annual meeting:

RESOLVED, that the WMS Industries Inc. 2005 Incentive Plan be, and it hereby is, ratified, approved and adopted in all respects.

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The affirmative vote of holders of a majority of the shares of our common stock present in person or by proxy and entitled to vote on this proposal is required for ratification of the 2005 Incentive Plan; provided that the