February 12, 2010

Technical Director
File Reference No. EITF 09-F
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116


Dear Technical Director:

WMS Industries Inc. ("WMS") is pleased to share with you our views on the proposed accounting standards update on Topic 924. We appreciate the FASB's willingness to address this issue and provide the necessary reporting clarifications for the gaming industry with respect to accounting for base jackpot liabilities. We have been following the deliberations on this topic as any change adopted by the FASB could have a significant impact on our consolidated financial results. We have read with great interest the conclusions on base jackpot liabilities in the Proposed AICPA Audit and Accounting Guide for the Gaming Industry (the "Proposed Audit Guide") and the Emerging Issues Task Force deliberations on Issue No. 09-F, "Casino Base Jackpot Liabilities" ("EITF 09-F"). The following reflects our thoughts on the Proposed Accounting Standard Update, Entertainment – Casinos (Topic 924) Casino Base Jackpot Liabilities (A Consensus of the FASB Emerging Issues Task Force), (the "Proposed ASU").

Background on WMS and Basis for Response: WMS Industries (NYSE:WMS) is engaged in serving the gaming industry worldwide by designing, manufacturing and marketing video and reel-spinning gaming machines, video lottery terminals, and in gaming operations, which consists of the placement of leased participation gaming machines in legal gaming venues. We sell or lease our products to casinos. We do not operate any casinos.

Among the leased products we provide to casinos are gaming machines linked to a wide-area progressive ("WAP") system. We would be considered a third-party "WAP operator" under Paragraph 4.07 of the Proposed Audit Guide. A WAP system electronically links gaming machines that are located across multiple casinos within a single gaming jurisdiction, or across Native American casinos, which for WAP system purposes are treated as one gaming
jurisdiction. The linked gaming machines contribute to and compete for large, system-wide progressive jackpots and are designed to increase gaming machine play for participating casinos by giving the casino players the opportunity to win a larger jackpot than on a non-WAP gaming machine. The base jackpot amount, commonly called the “reset amount”, is the minimum WAP jackpot amount that the first casino patron can win playing on either the start-up of a new WAP jackpot, or immediately after the prior WAP jackpot amount has been awarded. Our base jackpot amounts range from $100,000 to $1,000,000, significantly larger than any single gaming machine progressive or local area progressive base jackpot amount offered by casinos. WAP gaming machines differ from non-WAP gaming machines in that they build a progressive jackpot with every wager, commonly called the “incremental amount”, until a player hits the winning combination of reel symbols for the WAP jackpot amount to be awarded. Most of our WAP jackpots provide an immediate payout of the WAP jackpot amount, although some provide the winning casino patron a choice of either the WAP jackpot amount paid out over a 20-year period or the immediate payout of the present value of the WAP jackpot amount.

WMS has been a WAP operator since 2004 and currently we operate almost 3,200 WAP gaming machines on 16 different WAP systems in the following gaming jurisdictions: Nevada, Mississippi, New Jersey, Colorado, Arizona, Missouri and the largest portion of our installed base of WAP gaming machines is in over 120 Native American casinos, which for WAP purposes is considered a single gaming jurisdiction. We believe these gaming jurisdictions, represent in aggregate, approximately 80% of the installed base of legal gaming machines in the United States. Based on publicly available information, we believe that WMS is the second largest WAP operator in domestic casinos. We also believe that very few casinos operate their own WAP jackpot systems, but rather substantially all of the WAP jackpot systems in gaming entities are operated by third party WAP operators, i.e. the gaming manufacturers. Since 2004, casino patrons have wagered over $10 billion on our WAP gaming machines and over 150 WAP jackpots have been awarded for a total WAP jackpot amount of over $80 million. The WAP jackpot is awarded to the winning casino patron based on the random number generator in the gaming machine achieves the winning combination of reel symbols required to win the WAP jackpot amount.

The operation of a WAP system is governed by the regulations established by the gaming regulatory organization applicable to each gaming jurisdiction. To achieve gaming regulatory approval to operate a WAP system in each gaming jurisdiction, we must complete rigorous product testing and the preparation and approval of Internal Procedures and Controls ("IPC’s") that contain specific requirements governing the operation and payout of the WAP jackpots. This high degree of regulatory oversight results in our needing to comply strictly to all gaming regulations and to seek advance regulatory approval before any changes can be made to our WAP system processes or control procedures. In each gaming jurisdiction in which we operate, the gaming regulator requires that every time a jackpot is awarded, the winning casino patron wins the total WAP jackpot amount, which is a combination of the base jackpot amount plus the incremental jackpot amount. To be clear, to casino patrons, the WAP jackpot amount is one amount that appears on the WAP progressive meter embedded in our gaming machine.
display or displayed on signage over the WAP gaming machines, not two different jackpot amounts, i.e. separate base and incremental jackpot amounts.

Our perspective on the accounting for the WAP base jackpot amount may be different from the very few casino operators who provide their own WAP systems and all casino operators who are responsible for payouts of local-area progressive jackpots and single gaming machine progressive jackpots. In addition, because substantially all of the WAP jackpots in casinos are operated by one of four gaming machine manufacturers, as compared to over 400 casino locations in the United States, the FASB is not likely to receive many comment letters on WAP base jackpots. The much larger size of the WAP base jackpot amounts makes this a much more critical issue to these four gaming machine manufacturers than the much smaller base jackpot amounts offered by casinos on single gaming machine progressive and local area progressive jackpots. As we do not operate casinos, we are not familiar with the regulatory requirements for the operation of local-area progressive and single gaming machine progressive jackpots.

Our response below is based upon the operation and accounting policies for our WAP gaming machines and systems as more fully described in Attachment A to this letter, which is from our Annual Report on Form 10-K for our fiscal year ended June 30, 2009.

**Question 1:** Do you agree that an entity should not accrue base jackpots if the entity can avoid payment? If not, why not?

**Response:** We respectfully disagree with the accounting required in the Proposed ASU. We believe that the current accounting literature in FASB Concept Statement No. 6 "Elements of Financial Statements" ("Concept Statement No. 6") and Topic 450, "Accounting for Contingencies" ("Topic 450") support the existing accounting rules requiring base jackpot amounts to be accrued upon establishment of the WAP jackpot and charged to expense ratably over the period of play expected to precede payout of the WAP jackpot amount. If there is diversity in practice, we believe that the FASB should require compliance with the existing accounting rules rather than change those requirements.

As an alternative, we believe that the FASB should rule that WAP base jackpot amounts cannot be avoided and therefore should retain the current accounting.

As described in our principal accounting policies included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, our accounting for WAP jackpot liabilities and expense is as follows:

- "We record a WAP jackpot liability based on the actual volume of coin-in or gaming machine play plus the initial progressive meter liability ("reset") [the base jackpot amount] on each WAP system in each jurisdiction, discounted to net present value for non-instant pay jackpots."
• “We defer jackpot expense for the reset liability on each WAP linked system, which is subsequently amortized as jackpot expense in cost of gaming operations as revenues are generated from the coin-in or gaming machine play.”

Our Annual Reports on Form 10-K have been audited by our independent registered public accounting firm for each of the six years since we began operating our WAP gaming machines and system and we have received an unqualified opinion on each year’s consolidated financial statements. In addition, our Annual Reports on Form 10-K has been reviewed by the Securities and Exchange Commission staff three times since 2004 and the staff has not taken exception to our accounting for WAP base jackpot amounts.

Our response below cites disclosures in the Proposed Audit Guide and EITF 09-F, which we believe provided the basis for the conclusion reached in the Proposed ASU.

We believe FASB is trying to apply the same accounting principles to gaming entities and WAP operators. However, the gaming regulations require specific accounting in the WAP operator’s financial statements for WAP jackpot amounts. We believe that the FASB has incorrectly concluded that the accounting for WAP base jackpot amounts should be the same as single gaming machine progressive and local area progressive base jackpot amounts when different gaming regulatory rules and operational practices may apply.

The Proposed Audit Guide specifically states that regulatory differences exist between a) single gaming machine progressive and local area progressive base jackpot amounts and b) WAP base jackpot amounts as follows:

The Proposed Audit Guide provides:

• Paragraph 4.06: “For single machine progressive jackpots and local area progressive jackpots, in most gaming jurisdictions, gaming entities are required (by law or regulation) to award the incremental progressive amount whether the jackpot is won during the normal reel cycle or not. … As stated previously, most gaming jurisdictions require only the incremental amount to be awarded [for single progressive jackpots and local area progressive jackpots and not the base jackpot amount].”

• Paragraph 4.08: “In most gaming jurisdictions WAP operators are required to award the incremental progressive amount of the WAP jackpot, whether the jackpot is won or not. … Jurisdictions differ on the treatment of the base progressive amount. … some gaming jurisdictions require the WAP operator to transfer the base progressive amount to another WAP system whereas other jurisdictions do not.”

In addition, the Proposed Audit guide states another key difference between a) single gaming machine progressive and local area progressive base jackpot amounts and b) WAP base jackpot amounts.
• Paragraph 4.06: “The base progressive amount [for a single machine progressive jackpot or a local area progressive jackpot] is funded by the gaming entity.”

• Paragraph 4.08: “…the initial base progressive amount [for a WAP jackpot] is funded by the WAP operator.”

In each of the seven gaming jurisdictions in which we operate a WAP system we are required by the applicable gaming regulations to pay out the entire amount of the WAP jackpot amount on the WAP progressive meter once the winning combination of reels is achieved by a casino patron. This WAP jackpot amount equals the combined amount of the base jackpot amount plus the incremental jackpot amount.

As an example, the Nevada Gaming Commission Statutes 5.012 and 5.112, which describe Inter-casino linked payoff schedules, i.e. jackpot amounts and WAP jackpot amounts, specifically state:

“2. Payoff schedules [the WAP Jackpot amount displayed on or over the WAP gaming machines] or award cards must accurately state actual payoffs or awards applicable to the particular game or device and shall not be worded in such manner as to mislead or deceive the public. Maintenance of any misleading or deceptive matter on any payoff schedule or award card or failure on the part of a licensee [WAP operator] to make payment in strict accordance with posted payoff schedules or award cards may be deemed an unsuitable method of operation.”

“(a) Base amount” means the amount of a progressive payoff schedule initially offered before it increases……

(d) “Incremental amount” means the difference between the amount of a progressive payoff schedule and its base amount….

(c) “Operator” means any person or entity holding a license to operate an inter-casino linked system in Nevada,....”

“3. Each operator shall record on its balance sheet the base amount of each progressive payoff schedule when first exposed for play and subsequent to each payoff....”

For our WAP jackpots, we are absolutely required by the gaming regulations and our IPCs to record the entire WAP jackpot amount as a liability on our consolidated balance sheet and pay the total amount on the WAP jackpot amount to the casino patron who achieves the winning combination of reel symbols. For those WAP jackpots where the casino patron has a choice of receiving the WAP jackpot over a 20-year payout period or an immediate payout of the present value of the WAP jackpot amount, we adjust our WAP liability to present value as suggested in paragraph 4.11 in the Proposed Audit Guide.

Our IPCs support this regulatory requirement because: (1) WMS is required by the IPCs to record the entire WAP jackpot liability on its consolidated balance sheet; (2) all displays, promotion and advertising of the WAP jackpot liability are for the full amount of the WAP
jackpot liability; (3) the entire WAP jackpot liability is won by the casino patron; (4) a change in accounting for the WAP jackpot liability would require a re-submission and approval of each of the specific gaming regulatory authorities; (5) the magnitude of the entire WAP jackpot liability is a key aspect of why casino patrons play on gaming machines linked to a WAP system.

We cannot “avoid” paying out the full amount on the WAP progressive jackpot meter; once it is won, we are required to pay it. As we cannot avoid paying out the WAP jackpot amount, the total amount on the WAP progressive meter (equal to the base amount plus the incremental amount) is required by regulations in each of the gaming jurisdictions in which we operate to be accrued on our consolidated balance sheet and thus at any point in time the entire WAP jackpot amount is a full liability of WMS.

There are rare instances where the base jackpot amount might not paid out to a winning casino patron, and that is if a specific WAP jackpot system in a specific gaming jurisdiction (for example, MONOPOLY™ in New Jersey) is combined into another jackpot link (for example, REEL ADVENTURE™ in New Jersey). We decide to combine systems when the number of WAP gaming machines on a particular WAP system has declined to a point where the play level on the remaining WAP gaming machines on that system does not provide sufficient incremental amounts to be added to the base jackpot amount. WMS can only combine WAP systems in a single gaming jurisdiction after review and approval from the gaming regulator for the specific jurisdiction, and we are required to follow the process specified by the regulator. The Proposed Audit Guide states in Paragraph 4.08 that in this instance some gaming jurisdictions require the WAP operator to transfer the base progressive jackpot to another WAP system. Since we entered the WAP business in 2004, only 13 times, or 4.2% of the actual WAP jackpots awarded, have we sought and obtained regulatory approval to combine jackpot systems where ultimately, the base jackpot was not transferred to the next WAP link and the base jackpot amount was returned to WMS and therefore not awarded to a casino patron. Even in these rare instances where we combine WAP systems, we believe the proper accounting for the base jackpot amount should be to follow the accounting for the preponderance of our WAP business and be accrued as a liability, not viewed as being able to “avoid” the payout of the WAP jackpot amount in the rare exception when we combine WAP systems. We are in the business to operate WAP systems and do not combine WAP systems merely to avoid paying the base jackpot amount and as stated above this is a rare occurrence.

The accounting treatment in the Proposed ASU will result in a substantial change in accounting and, as discussed below, provide much greater volatility to our financial results. WAP operators are in the business to generate profits from operating WAP gaming machines and WAP systems, and we believe the accounting for the WAP jackpot liabilities and WAP jackpot expense should be based on a “going concern” concept of continued operations, growth and profitability. We view the FASB’s determination of the accounting called for in the Proposed ASU (i.e. that the WAP base jackpot amount would not be recorded until it is won) as adopting a non-going concern focus assuming all of the WAP links will be combined and all of the base jackpots amounts will be avoided which, as stated above, is a rare instance.
Paragraph 4.09 of the Proposed Audit Guide cites Concept Statement No. 6 and Topic 450 as the basis upon which it concludes in Paragraph 4.11 that the base jackpot amount should not be accrued prior to the jackpot being won by a casino patron, as “no past event has occurred to create a liability”. Respectfully, these accounting pronouncements are the literature that supports the existing accounting rules to record the WAP base jackpot liability on the balance sheet and expense the base jackpot amount ratably over the period of play expected to precede the WAP jackpot being won. The Proposed ASU appears to replace the accrual basis of accounting for the WAP jackpot liability and expense of the base jackpot liability with the cash basis requirement to pay the base jackpot liability upon the WAP jackpot being won.

We believe Concept Statement No. 6, Paragraphs 35 through 42, require WMS to record the base jackpot amount as a liability on its consolidated balance sheet because “Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events… A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more entities that entails settlement by probable future transfer or use of assets at a specified or determined date, on occurrence of a specified event or on demand; (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. Liabilities commonly have other features that help identify them – for example, most liabilities require the obligated entity to pay cash to one or more identified other entities and are legally enforceable… Although most liabilities result from agreements between entities, some obligations are imposed on entities by government or courts or are accepted to avoid imposition by government or courts… Once incurred, a liability continues as a liability of the entity until the entity settles it, or another event or circumstance discharges it or removes the entity’s responsibility to settle it”.

The base jackpot amount meets the three essential characteristics cited above. The base jackpot amount is a liability that will be settled in the future by the transfer of cash to the winning casino patron by the WAP operator once the winning combination of reel symbols is achieved. The WAP operator has no discretion to pay the base jackpot amount as part of the total WAP jackpot amount to the winning casino patron according to the regulatory requirements. The initial display on the WAP gaming machines of the base jackpot amount, which is included in the total WAP jackpot amount, is the event that has already occurred that requires the WAP operator to be obligated to pay out the base jackpot amount in the future. The base jackpot amount is fixed for each WAP system and is included with the incremental jackpot amount on the display at the WAP gaming machines of the total WAP jackpot amount that each casino patron playing the WAP gaming machines believes he or she has a chance to win on each and every wager, i.e. once the base jackpot amount is displayed on the first WAP gaming machines as part of the total WAP jackpot amount to potentially be won by a casino patron, the obligation has occurred and therefore must be accrued on the WAP operators balance sheet.

Even if the FASB were to look at the base jackpot amount as a contingent liability rather than an actual liability under Concept Statement No. 6, under Topic 450, Paragraph 25, the base jackpot
amount represents a liability that is both probable of occurrence and can be reasonably estimated. It is probable of occurrence, as according to gaming regulators, once the WAP operator initiates the base jackpot amount on the WAP system, it cannot avoid the payment and potentially with even the next penny wagered on the WAP gaming machines the winning combination of reels could be achieved requiring the payment of the entire WAP jackpot amount. In fact, in our experience even including the rare instances of combining jackpots described above, the base jackpot is paid out 96% of the time. Each casino patron playing the WAP gaming machines believes they will win the WAP jackpot amount with every wager they make in playing the WAP gaming machines. In addition, the base jackpot amount can be reasonably estimated as it is a fixed and determinable amount for each WAP jackpot.

Paragraph 4.05 of the Proposed Audit Guide states: “whether the jackpot is won during the normal reel cycle or not.” The reference to the “reel cycle” refers to whether the combination of reel symbols required to win the WAP jackpot amount is achieved prior to, at or after the theoretical amounts to be wagered by casino patrons expected to win the jackpot, which is determined by the mathematics underlying each WAP jackpot amount. Each WAP system has an expected payout at a theoretical amount of money wagered on all of the WAP gaming machines on the particular WAP system. Over billions of dollars of amounts wagered, the WAP jackpots would be awarded, on average, at these theoretical amounts wagered. But in actuality, because of the randomness of the underlying math in the WAP gaming machines, WAP jackpots are awarded before, at and after the theoretical amount wagered. Of the WAP jackpots awarded by WMS since 2004, just less than half were won prior to achieving the theoretical amount wagered.

At WMS, we expense the base jackpot amount over the theoretical amount wagered on each WAP system, i.e. the $100,000 to $1,000,000 base jackpot amount is amortized over the actual amounts wagered by casino patrons such that the base jackpot amount would be fully expensed once the theoretical amount wagered to win the WAP jackpot had been wagered. If a WAP jackpot is awarded prior to the actual amount wagered on the WAP gaming machines equaling the theoretical amount, WMS records an additional expense in its consolidated income statement in the period the WAP jackpot is won equal to the amount of the unamortized base jackpot amount. If the WAP jackpot amount is not awarded until after the theoretical amount wagered which is expected to win the WAP jackpot amount, WMS benefits from having no remaining base jackpot amount to be amortized until the next base jackpot is established after the current jackpot amount is actually awarded.

While this provides a bit of volatility, it is substantially less than the volatility that would occur if the Proposed ASU were enacted. The Proposed ASU would require no amortization of the base jackpot amount until the WAP jackpot is awarded, which in our case would result in the $100,000 to $1,000,000 base jackpot amount being an immediate charge in our consolidated income statement when the WAP jackpot amount is won. The largest WAP operator in the United States has one WAP link with a $10 million base jackpot amount, which would create significant higher volatility if the Proposed ASU was adopted. WAP base jackpot amounts, by their nature, are substantially larger than the base jackpot amounts for single gaming machine
and local area progressive gaming machine base jackpots. We believe it makes no logical sense to not expense the base jackpot amount until the time the winning combination of reel symbols is awarded to a casino patron. The Proposed ASU will result in substantially larger charges being recorded in our consolidated income statements, and thus will provide much greater volatility to our financial results.

While not included in the Proposed ASU, WMS also disagrees with the statement in Paragraph 4.11 of the Proposed Audit Guide that states, “Such accruals [for funds received from the gaming entities related to funding the WAP base jackpot amounts] should be recognized as funds are received from the gaming entities.” This implies that the cash basis of accounting for base jackpot amounts should be used to record the revenue from the daily lease payments we charge to our customers for the WAP gaming machines and WAP system. In most gaming jurisdictions where we operate WAP gaming machines and WAP systems, we charge our casino customers a fixed daily lease rate for each WAP gaming machine equal to a percentage of the coin-in for each day, i.e. the amounts wagered for each specific day. As these WAP gaming machines are linked to servers in WMS operated data centers, we know exactly how much our lease payment is for each day for each WAP gaming machine. The lease payment is a single amount meant to cover a) recovery of the capital invested by WMS in placing its WAP gaming machines and WAP system equipment in the casino, b) the cost to operate the WAP system, which includes the cost of operating a 24x7x365 data center, the cost of the telephone lines to transmit data from each casino on the WAP system to the WMS data center, and gaming taxes, plus c) an amount to provide a level of profit to WMS. Each casino customer is charged a single daily lease rate, which is not allocated amongst the various elements discussed in the prior sentence.

Our revenue recognition is based on the criteria set forth in the following accounting pronouncements; FASB Accounting Standards Codification (“ASC”) 605, “Revenue Recognition” (“Topic 605”), FASB ASC 985, “Software” (“Topic 985”), Accounting Standards Update (“ASU”) No. 2009-13, “Multiple-Deliverable Revenue Arrangements” and ASU No. 2009-14 “Certain Revenue Arrangements That Include Software Elements”, and Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements,” as revised by SAB No. 104, “Revenue Recognition”. Our revenue recognition policy for both product sales and gaming operations is to record revenue when all the following criteria are met:

- Persuasive evidence of an agreement exists;
- The price to the customer is fixed or determinable;
- Delivery has occurred, title has been transferred, and any acceptance terms have been fulfilled;
- No significant contractual obligations remain; and
- Collectibility is reasonably assured.
In the case of the WAP revenue, all of these criteria are met each day and thus WMS uses the accrual basis of accounting for WAP revenue in its consolidated financial statements. We believe the Proposed Audit Guide should be revised to require appropriate accrual basis accounting for WAP revenues.

WMS agrees with the FASB that diversity in practice should be eliminated and requests the FASB amend the Proposed ASU to require that all WAP system jackpot liabilities, both base and incremental jackpot amounts, be fully accrued on the balance sheet at all times, as there is an obligation for the full amount of the WAP jackpot amount to be paid. We believe that entities should not account for the WAP base jackpot amount as if they can avoid the payment of the jackpot, as that conflicts with the accounting promulgated under Concept Statement No.6 and Topic 450, and the requirements of the various gaming regulators and IPC requirements. Alternatively, the FASB should rule that WAP base jackpot amounts cannot be avoided.

**Question 2:** Do you agree that the amendments in this proposed Update should be applied prospectively with a cumulative-effect adjustment reflected in retained earnings? If not, why not?

**Response 2**

As per our response to Question 1, we believe that the entire WAP jackpot amount should be accrued as a liability, both the base jackpot amount and the increment jackpot amount, once the WAP jackpot is established and that the base amount should be expensed over the amounts wagered on the WAP gaming machines based on the theoretical amount of wagers required for the WAP jackpot to be awarded. Changes to correct diversity in practice to adopt this accounting treatment should be applied prospectively with a cumulative-effect adjustment reflected in retained earnings.

We appreciate the opportunity to comment on the Proposed ASU. If you have any questions about our comments or wish to discuss these matters further, please contact me at 847-785-3760.

Sincerely,

/s/ Scott D. Schweinfurth

Scott D. Schweinfurth
Executive Vice President, Chief Financial Officer & Treasurer
WMS Industries Inc.
EXTRACTS FROM OUR ANNUAL REPORT ON FORM 10-K

☐ Wide-Area Progressive ("WAP") participation games.

A WAP system electronically links gaming machines that are located across multiple casinos within a single gaming jurisdiction, or across Native American gaming jurisdictions. The linked gaming machines contribute to and compete for large, system-wide progressive jackpots and are designed to increase gaming machine play for participating casinos by giving the players the opportunity to win a larger jackpot than on a non-linked gaming machine. Our WAP games include titles under our proprietary brands and licensed brands such as MONOPOLY, including MONOPOLY GRAND HOTEL®, BIG EVENT®, CLINT EASTWOOD® based games, POWERBALL, TOP GUN™, THE WIZARD OF OZ™, TIME MACHINE®, Reel 'em In Compete To Win®, and JOHN WAYNE®. Net win per gaming machine on WAP systems is generally higher than on other types of participation gaming machines. We operate WAP systems in Arizona, Colorado, Mississippi, Missouri, Nevada and New Jersey and in Native American casinos.

WAP participation games typically are leased where we earn revenue based on a percentage of the amount wagered or a combination of a fixed daily fee plus a percentage of the amount wagered. WAP participation games generate our highest daily lease rate and gross profit contribution; however, the gross margin percentage is below the other two types of participation games because we are responsible for funding the WAP jackpot award, which we expense as cost of gaming operations in our Consolidated Statements of Income.

APPLICABLE ACCOUNTING POLICIES

Cash, Cash Equivalents and Restricted Cash

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

WAP Jackpot Liabilities and Expenses

WAP jackpots are payable either immediately in the case of instant pay progressive jackpots or, for non-instant pay jackpots, at the jackpot winner’s choice, in a lump sum or in equal installments over a 20-year period. For non-instant pay jackpots, winners may elect to receive a single lump sum payment for the value of the jackpot, discounted to present value at applicable interest rates, in lieu of 20 annual installments. We record a WAP jackpot liability based on the actual volume of coin-in or gaming machine play plus the initial progressive meter liability ("reset") on each WAP system in each jurisdiction, discounted to net present value for non-instant pay jackpots. We defer jackpot expense for the reset liability on each WAP linked
system, which is subsequently amortized as jackpot expense in cost of gaming operations as revenues are generated from the coin-in or gaming machine play.

Our jackpot liabilities totaled $9.6 million and $11.3 million at June 30, 2009 and 2008, respectively. Our jackpot expense was $14.2 million, $17.9 million and $13.3 million for fiscal 2009, 2008 and 2007, respectively. To fund our WAP jackpot liabilities, we are required to maintain restricted cash and cash equivalents, as described above.