

WMS INDUSTRIES INC /DE/
Form DEF 14A
October 24, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
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WMS INDUSTRIES INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- 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:

(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):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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800 South Northpoint Boulevard

Waukegan, Illinois 60085

October 23, 2008

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Thursday, December 11, 2008

10:00 a.m., Central Time

The Four Seasons Hotel

120 E. Delaware Place

Chicago, Illinois 60611

AGENDA:

1. To elect a board of ten (10) directors;
2. To approve the adoption of our Employee Stock Purchase Plan;
3. To ratify the appointment of Ernst & Young as our independent registered public accounting firm for our fiscal year ending June 30, 2009; and
4. To transact 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 16, 2008 are entitled to notice of and to vote at our Annual Meeting of Stockholders and any adjournments thereof. A list of the stockholders entitled to vote will be available for examination by any stockholder of WMS for any purpose germane to the Annual Meeting of Stockholders during regular business hours at our principal executive offices for the period beginning ten calendar days prior to the December 11, 2008 meeting until the end of the meeting.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ALL DIRECTOR NOMINEES AND FOR PROPOSALS 2 and 3.

By Order of the Board of Directors,

Kathleen J. McJohn
Vice President, General Counsel

and Secretary

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

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ANNUAL MEETING OF STOCKHOLDERS

WMS INDUSTRIES INC.

PROXY STATEMENT

FREQUENTLY ASKED QUESTIONS

1. WHO IS SOLICITING MY VOTE?

This proxy solicitation is being made by the Board of Directors of WMS Industries Inc. We have retained Georgeson Shareholder Communications, Inc., to assist in the distribution of our proxy materials. We will pay the entire cost of this solicitation, including Georgeson's fee which we expect to be approximately \$1,500.

2. WHEN WAS THIS PROXY STATEMENT MAILED TO STOCKHOLDERS?

This proxy statement was first mailed to stockholders on or about October 24, 2008.

3. WHAT MAY I VOTE ON?

You may vote on:

- Ø The election of ten (10) directors to serve on our Board of Directors.

- Ø The approval of the WMS Industries Inc. Employee Stock Purchase Plan.

- Ø The ratification of the appointment of Ernst & Young as our independent registered public accounting firm for our fiscal year ending June 30, 2009.

4. HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSALS?

The Board of Directors recommends that you vote:

FOR each of the director nominees to serve on our Board of Directors.

FOR the approval of our Employee Stock Purchase Plan.

FOR the ratification of the appointment of Ernst & Young as our independent registered public accounting firm for our fiscal year ending June 30, 2009.

5. WHO IS ENTITLED TO VOTE?

Holders of shares of our common stock as of the close of business on October 16, 2008, the Record Date, are entitled to vote on all items properly presented at the Annual Meeting of Stockholders. On the Record Date, approximately 50,030,858 shares of our common stock were outstanding. Every stockholder is entitled to one vote for each share of common stock held. A list of these stockholders will be available during ordinary business hours at our principal place of business, located at 800 South Northpoint Blvd., Waukegan, Illinois 60085, from our Corporate Secretary at least ten calendar days before December 11, 2008. The list of stockholders will also be available at the Annual Meeting of Stockholders.

6. HOW DO I VOTE BY MAIL?

If you complete and properly sign each proxy card you receive and return it to us in the prepaid envelope, it will be voted as you direct by one of the individuals indicated on the card (your proxy). If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the election of the director nominees, FOR the approval of our Employee Stock Purchase Plan and FOR the ratification of the appointment of our independent registered public accounting firm. For additional information, please see question 12, below.

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7. WHO CAN ATTEND THE ANNUAL MEETING OF STOCKHOLDERS?

Only stockholders as of the close of business on October 16, 2008, holders of proxies for those stockholders and other persons invited by us can attend. If your shares are held by your broker in street name, you must bring a letter from your broker or a copy of your instruction form from your broker to the meeting showing that you were the direct or indirect (beneficial) owner of the shares on October 16, 2008 to attend the meeting.

8. CAN I VOTE AT THE MEETING?

Yes. If you wish to vote your shares in person at the Annual Meeting of Stockholders and they are held by your broker in street name, you must bring a letter from the broker to the meeting showing that you were the beneficial owner of the shares on October 16, 2008.

9. CAN I CHANGE MY VOTE AFTER I RETURN MY PROXY CARD?

Yes. You may change your vote at any time before the voting concludes at the Annual Meeting of Stockholders by taking any one of the following actions:

- Ø Sending in another proxy signed on a later date by mail.
- Ø Notifying our Corporate Secretary in writing before the Annual Meeting of Stockholders that you wish to revoke your proxy.
- Ø Voting in person at the Annual Meeting of Stockholders.

10. HOW DO I VOTE MY SHARES IF THEY ARE HELD IN STREET NAME?

If your shares are held by your broker in street name, you will receive a form from your broker seeking instruction as to how your shares should be voted. We urge you to complete this form and instruct your broker how to vote on your behalf. You can also vote in person at the Annual Meeting of Stockholders, but you must bring a letter from the broker showing that you were the beneficial owner of your shares on October 16, 2008.

11. WHAT IS A QUORUM ?

A quorum is a majority of the outstanding shares. The shares may be present at the Annual Meeting of Stockholders or represented by proxy. There must be a quorum for the Annual Meeting of Stockholders to be held. If you submit a properly executed proxy card, even if you abstain from voting, you will be considered part of the quorum. Broker non-votes are also considered a part of the quorum. Broker non-votes occur when a broker holding shares for a beneficial owner does not vote on a particular matter because the broker does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

12. WHAT IS BROKER DISCRETIONARY VOTING?

Under the rules of the New York Stock Exchange (NYSE), if you hold your shares through a broker, your broker is permitted to vote your shares on the election of directors and ratification of our independent registered public accounting firm in its discretion if it has transmitted the proxy materials to you and has not received voting instructions from you on how to vote your shares before the deadline set by your broker. Your broker cannot vote your shares without your instruction on how to vote on the approval of our Employee Stock Purchase Plan, so it is very important that you instruct your broker how to vote on this proposal.

13. HOW ARE MATTERS PASSED OR DEFEATED?

- Ø Under Delaware law, the ten director nominees receiving the highest number of affirmative votes will be elected. Our Board of Directors has adopted a policy requiring any director nominee who receives a greater number of votes withheld than votes for his or her election to tender his or her resignation to

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the Board of Directors for consideration by our Nominating and Corporate Governance Committee and Board. For purposes of this calculation, abstentions and broker non-votes will not be counted. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

- Ø Proposal 2, approval of our Employee Stock Purchase Plan must receive affirmative votes from more than 50 percent of the shares that are present and entitled to vote in order to be approved. Broker non-votes are not counted as shares voted on the approval of the Employee Stock Purchase Plan. An abstention has the same effect as a vote AGAINST this proposal.

- Ø Ratification of the appointment of our independent registered public accounting firm must receive affirmative votes from more than 50 percent of the shares that are present and entitled to vote in order to be approved. An abstention has the same effect as a vote AGAINST this proposal.

14. WHO WILL COUNT THE VOTES?

Proxies will be tabulated by our transfer agent, American Stock Transfer and Trust Company.

15. IS MY VOTE CONFIDENTIAL?

Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to American Stock Transfer and Trust Company and handled in a manner that protects your voting privacy. Your vote will not be disclosed except (1) as needed to permit American Stock Transfer and Trust Company to tabulate and certify the vote and (2) as required by law. However, comments written on the proxy card may be forwarded to management. In that case, your identity may not be kept confidential.

16. HOW WILL VOTING ON ANY BUSINESS NOT DESCRIBED ON THE NOTICE OF ANNUAL MEETING OF STOCKHOLDERS BE CONDUCTED?

We do not know of any business to be considered at the Annual Meeting of Stockholders other than the proposals described in this proxy statement. If any other business is presented at the Annual Meeting of Stockholders, your signed proxy card gives authority to Brian R. Gamache, Orrin J. Edidin, Scott D. Schweinfurth and Kathleen J. McJohn to vote on such matters at their discretion.

17. DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS

If you are the beneficial owner, but not the record holder of our shares, your broker, bank or other nominee may only deliver one copy of this proxy statement and our 2008 Annual Report to multiple stockholders who share an address unless that nominee has received contrary instructions from you or one or more of the other stockholders at the same address. We will deliver promptly, upon written or oral request, a separate copy of this proxy statement and our 2008 Annual Report to a stockholder at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of these documents, now or in the future, should submit this request by writing to American Stock Transfer and Trust Company, 59 Maiden Lane, Plaza Level, New York, NY 10038 or by calling (800) 937-5449 or (718) 921-8124. Beneficial owners sharing an address who are receiving multiple copies of these documents and who wish to receive a single copy in the future will need to contact their broker, bank or other nominee to request that only one copy of each document be mailed to all stockholders at the shared address in the future.

18. WHEN ARE STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS DUE?

We must receive any stockholder proposals of matters to be acted upon at our 2009 Annual Meeting of Stockholders on or before June 23, 2009, in order to consider including them in our proxy materials for that meeting. Except as otherwise permitted under Rule 14a-8 under the Securities Exchange Act of 1934, in order for

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a matter to be acted upon at an Annual Meeting of Stockholders, notice of stockholder proposals must be delivered to us not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Meeting of Stockholders; provided, however, that in the event that the date of the Annual Meeting of Stockholders is more than 30 days before or more than 70 days after such anniversary date, notice by a stockholder must be delivered to our Corporate Secretary at 800 South Northpoint Blvd., Waukegan, Illinois 60085 not earlier than the 120th day prior to an Annual Meeting of Stockholders and not later than the 10th day following the day on which we first publicly announce the date of the meeting. Next year, provided we do not change our meeting date as described above, the submission period for stockholder notices and director nominations will extend from August 13, 2009 to September 12, 2009, except as otherwise permitted under Rule 14a-8 under the Securities Exchange Act of 1934.

PROPOSAL 1 ELECTION OF DIRECTORS

Our Board of Directors currently consists of ten directors. Upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated all ten of our current directors, named below, to stand for re-election as directors to serve for a term expiring at our 2009 Annual Meeting of Stockholders or until their respective successors are elected and qualify.

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
Harold H. Bach, Jr. (76)	Director; Retired Chief Financial Officer of Midway Games Inc.	2003
Robert J. Bahash (63)	Director; Executive Vice President and Chief Financial Officer of The McGraw-Hill Companies	2007
Brian R. Gamache (49)	Chairman of the Board; Chief Executive Officer	2001
Patricia M. Nazemetz (58)	Director; Chief Human Resources and Ethics Officer of Xerox Corporation	2007
Louis J. Nicastro (80)	Founding Director; Retired Chairman and Chief Executive Officer of WMS Industries Inc.	1974
Neil D. Nicastro (51)	Director; Retired President and Chief Executive Officer of Midway Games Inc.	1986
Edward W. Rabin, Jr. (61)	Lead Director; Retired President of Hyatt Hotels Corporation	2005
Ira S. Sheinfeld (70)	Director; Partner, Hogan & Hartson, LLP (Attorneys-at-Law)	1993
Bobby L. Siller (63)	Director; Retired Member of the Nevada Gaming Control Board	2008
William J. Vareschi, Jr. (66)	Director; Retired Chief Executive Officer and Vice Chairman of Central Parking Corporation	2004

Harold H. Bach, Jr. joined our Board in October 2003. He served as Chief Financial Officer and an Executive Vice President of Midway Games Inc. (NYSE: MWY) (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 (retired) and was a partner in the accounting firms of Ernst & Young (1989-1990) and Arthur Young & Company (1967-1989). Mr. Bach is the Chairman of our Audit and Ethics Committee.

Robert J. Bahash joined our Board in September 2007. He has served as Executive Vice President and Chief Financial Officer for The McGraw-Hill Companies since 1988. Mr. Bahash has been with McGraw-Hill since 1974 and has held a number of finance-related positions. Mr. Bahash is a member of the American Institute

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of Certified Public Accountants, the Financial Executives Institute, and the New Jersey Society of Certified Public Accountants. Mr. Bahash is a certified public accountant and a member of our Audit and Ethics Committee and our Compensation Committee.

Brian R. Gamache serves as our Chairman of the Board and Chief Executive Officer. Mr. Gamache has served as our Chief Executive Officer since April 2000 and also served as our President from June 2001 until he became our Chairman in July 2008. From 1990 until 1997, Mr. Gamache served in various executive capacities for our former hotel and resort subsidiaries, rising to the position of President and Chief Operating Officer. At the time of WMS 1997 spin-off of WHG Resorts & Casinos Inc., Mr. Gamache left WMS to devote his full time to WHG Resorts & Casinos Inc. Mr. Gamache served as President of the Luxury and Resort Division of Wyndham International from 1998 until April 2000. Mr. Gamache is a member of the Board of the American Gaming Association and serves as the Chair of its Finance Committee.

Patricia M. Nazemetz joined our Board in December 2007. She has served as Chief Human Resources and Ethics Officer for Xerox Corporation since 2007. Ms. Nazemetz has also served as a Vice President for Xerox Corporation since January 1999. Ms. Nazemetz has been with Xerox since 1979 and has held a number of human resource related positions. Ms. Nazemetz serves as director of Energy East Corporation (NYSE: EAS). She is also a trustee of Fordham University. Ms. Nazemetz is a member of our Compensation Committee and our Nominating and Corporate Governance Committee.

Louis J. Nicastro has served as a director since our incorporation in 1974. Mr. Nicastro served as our Chairman of the Board from 1974 until 2008. Mr. Nicastro is designated as our Founding Director in recognition of his contributions to our Company. Additionally, 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 is Neil D. Nicastro's father.

Neil D. Nicastro served in various executive positions for us, including President, Chief Executive Officer and Chief Operating Officer, beginning in 1986 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 Louis J. Nicastro's son. Mr. Nicastro is a member of our Gaming Compliance Committee.

Edward W. Rabin, Jr. became our Lead Director in July 2008. Mr. Rabin served as the President of Hyatt Hotels Corporation from 2003 until his retirement in January 2006. Between 1989 and 2003, Mr. Rabin served as Executive Vice President for Hyatt Hotels Corporation, and was named Chief Operating Officer in 2000. Mr. Rabin is a director of PrivateBancorp, Inc. (NASDAQ-PVTB), Sally Beauty Holdings (NYSE: SBH), and Oneida Ltd. Mr. Rabin serves as Chairman of our Compensation Committee, and is a member of our Audit and Ethics 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.

Bobby L. Siller joined our Board in January 2008. He was one of three members of the Nevada State Gaming Control Board serving for eight years from January 1999 until December 31, 2006. Prior to his appointment to the Nevada State Gaming Control Board, he served for 25 years with the Federal Bureau of Investigation (FBI). At the FBI, he was Special Agent-in-Charge of the Las Vegas Division for three years, as well as at bureau offices in Dayton, Ohio and Dallas, Texas, and as an administrator with the FBI Academy in Quantico, Virginia. Mr. Siller is a member of our Gaming Compliance Committee and our Nominating and Corporate Governance Committee.

William J. Vareschi, Jr. was the Chief Executive Officer and Vice Chairman of the Board of Central Parking Corporation from April 2001 until his retirement in May 2003. Before joining Central Parking Corporation in April 2001, his prior business career of more than 35 years was spent with the General Electric

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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 also serves as a director and a member of the audit committee of WESCO International Inc. (NYSE: WCC). Mr. Vareschi serves as Chairman of our Nominating and Corporate Governance Committee and is a member of our Audit and Ethics Committee.

Vote Required to Elect Nominees

Under Delaware law, the affirmative vote of a plurality of the shares present in person or by proxy at the Annual Meeting of Stockholders is required to elect directors. Our Board of Directors has adopted a policy requiring any director nominee who receives a greater number of votes withheld than votes for his or her election to tender his or her resignation to the Board of Directors for consideration by our Nominating and Corporate Governance Committee and Board. For purposes of this calculation, abstentions and broker non-votes will not be counted.

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

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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, as of October 16, 2008 beneficially owned more than 5% of our outstanding shares of common stock, determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, other than Brian R. Gamache, 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	3,997,555(1)	8.0%
Kornitzer Capital Management Inc. 5420 West 61st Place Shawnee Mission, KS 66205	3,516,206(2)	7.0%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	2,660,145(3)	5.3%
Turner Investment Partners, Inc. 1205 Westlakes Drive, Suite 100 Berwyn, PA 19312	2,571,468(4)	5.1%

- (1) Based upon an amendment to Schedule 13D filed with the Securities and Exchange Commission by Sumner M. Redstone and National Amusements, Inc. (NAI) on July 30, 2008. As a result of his stock ownership in NAI, Mr. Redstone is considered the beneficial owner of the shares owned by NAI. NAI has reported shared dispositive power over 3,997,555 shares. Under a Voting Proxy Agreement among Mr. Redstone, NAI, Brian R. Gamache (our Chairman and Chief Executive Officer) and us, Mr. Gamache has sole voting power over NAI s shares. See Voting Proxy Agreements below.
- (2) Based upon Amendment No. 1 to Schedule 13G dated February 13, 2008, filed with the Securities and Exchange Commission by Kornitzer Capital Management Inc. Kornitzer Capital Management Inc. reported that it has sole voting power over 3,516,206 shares, sole dispositive power over 3,397,421 shares and shared dispositive power over 118,785 shares.
- (3) Based upon Amendment No. 2 to Schedule 13G dated December 31, 2007 filed with the Securities and Exchange Commission by T. Rowe Price Associates, Inc. (Price Associates). Price Associates reported that it and its subsidiaries have sole voting power over 745,500 shares and sole dispositive power over 2,660,145 shares. These securities are owned by various individual and institutional investors, for which Price Associates serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the

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reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (4) Based upon Amendment No. 1 to Schedule 13G dated January 25, 2008, filed with the Securities and Exchange Commission by Turner Investment Partners, Inc. Turner Investment Partners, Inc. reported that it has sole voting power over 2,042,520 shares and sole dispositive power over 2,571,468 shares.

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

The following table sets forth, as of October 16, 2008, information about the beneficial ownership of our common stock by each of our directors (all of which are nominees) and our executive officers named in the Summary Compensation Table below and by all of our directors and executive officers as a group, determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. Unless otherwise indicated, all shares shown as beneficially owned are held with sole voting and investment power. All persons listed beneficially own less than 1% of our outstanding shares, except Brian R. Gamache (10.2%) and Directors and Executive Officers as a group (13.0%).

Name of Beneficial Owner	Total Beneficially Owned (1)	Number of Vested Options (1)	Number of Shares of Restricted Stock or Units	Number of Deferred Units (2)
Harold H. Bach, Jr.*	45,509	18,893	17,970	4,978
Robert J. Bahash*	50,002	25,000	11,334	
Patricia C. Barten	40,786	31,433	8,456(3)	
Orrin J. Edidin	179,784	130,970	38,213(3)	
Brian R. Gamache*	5,176,481(4)	674,405	89,420(3)	
Kathleen J. McJohn	64,699	56,473	7,614(3)	
Patricia M. Nazemetz*	32,666	25,000	7,666	
Louis J. Nicastro*	53,076	26,460	17,970	4,978
Neil D. Nicastro*	90,597	63,960	17,970	4,978
Edward W. Rabin, Jr.*	106,523(5)	52,635	17,970	
Scott D. Schweinfurth	274,792	244,555	23,687(3)	
Ira S. Sheinfeld*	124,408	101,460	17,970	4,978
Bobby L. Siller*	7,666		7,666	
William J. Vareschi, Jr.*	60,576	26,460	17,970	4,978
Directors and Executive Officers as a group				
(17 persons)	6,932,487	1,581,901	308,626	29,868

* *Nominee for Director*

- (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) Deferred units are non-voting interests which represent the right to receive, upon departure from the Board, one share of our common stock for each deferred unit granted.
- (3) Includes restricted stock units which are non-voting interests: Ms. Barten (5,764 units), Mr. Edidin (26,925 units), Mr. Gamache (54,473 units), Ms. McJohn (4,688 units) and Mr. Schweinfurth (8,627 units).
- (4) Includes 3,997,555 shares owned by Sumner M. Redstone and National Amusements, Inc. for which the reporting person has sole voting power but no dispositive power. Includes 300,000 shares owned by Phyllis G. Redstone for which the reporting person has sole voting power but no dispositive power. See Voting Proxy Agreements.
- (5) Includes 32,168 shares held by the Edward Rabin Trust and 3,750 shares held by Mr. Rabin's wife. Mr. Rabin disclaims beneficial ownership of the securities held by his wife.

Voting Proxy Agreements

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In order for us to manufacture and sell gaming machines in Nevada, our officers and directors are required to be, and have been or are in the process of being, registered, licensed or found suitable by the Nevada gaming authorities, among other gaming authorities. In addition, under applicable Nevada law and administrative procedure, as a greater than 5% stockholder of our Company, Sumner M. Redstone was required to apply, and

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has an application pending, with the Nevada gaming authorities, for a finding of suitability as a stockholder of our Company. National Amusements, Inc., a company controlled by Mr. Redstone, owns 3,997,555 shares, or 8.0% of our outstanding shares.

Under an amended voting proxy agreement, originally entered into in 1995, Mr. Redstone and National Amusements, Inc. voluntarily granted a voting proxy to a proxy-holder to vote all of Mr. Redstone's and National Amusements, Inc.'s shares. In 2006, Mr. Brian R. Gamache became the proxy-holder under the agreement. The agreement is intended to ensure that the passive investment position of Mr. Redstone and National Amusements, Inc. relative to our Company will not change without prior notification to the Nevada gaming authorities. Under the agreement, Mr. Gamache votes the shares subject to the agreement 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, 2010, 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 our Company or are no longer subject to the applicable provisions of Nevada gaming laws. Mr. Gamache has advised us that he plans to use the voting proxy to vote such shares in favor of each nominee for election as director under Proposal 1 and FOR Proposals 2 and 3.

Phyllis G. Redstone currently owns 300,000 shares, or less than 1.0% of our outstanding shares. Under an amended voting agreement, originally entered into in 2002, Ms. Redstone granted a voting proxy to a proxy-holder. In 2006, Mr. Gamache became the proxy-holder. Under this agreement, Mr. Gamache will vote the shares owned by Ms. Redstone at his discretion at meetings of our stockholders and will act 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. Mr. Gamache has advised us that he plans to use the voting proxy from Ms. Redstone to vote such shares in favor of each nominee for election as director under Proposal 1 and FOR Proposals 2 and 3.

CORPORATE GOVERNANCE

The following corporate governance materials are available and can be viewed and downloaded from the Corporate Governance section of the Investor Relations section of our website at www.wms.com: (1) our Amended and Restated Certificate of Incorporation; (2) our Amended and Restated By-laws; (3) our Corporate Governance Guidelines; (4) our Code of Conduct applicable to our directors, officers and employees; (5) our Whistleblower Policy; and (6) the Charters of our Audit and Ethics, Compensation, and Nominating and Corporate Governance Committees. We will provide a copy of these documents to our stockholders, without charge, upon written request addressed to us at 800 South Northpoint Boulevard, Waukegan, Illinois 60085, attention: Treasurer.

Board of Directors

Eleven (11) meetings in fiscal year 2008

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.

Each director nominated for re-election attended at least 75%, except Ms. Nazemetz who attended 69%, of the aggregate number of meetings of the Board and all Committees on which he or she served during the fiscal year. Our non-employee directors hold regular executive sessions without management being present. During fiscal year 2008, the Board met in executive session without management being present at seven (7) meetings. Our Lead Director, wT SIZE="1"> **Allocated Unallocated Total**

Assets

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CVS Corporation Series One ESOP Convertible Preference Stock, at fair market value (3,004,652 allocated and 1,160,542 unallocated shares in 2005 and 2,777,333 allocated and 1,496,238 unallocated shares in 2004) \$367,384,120 \$141,901,514 \$509,285,634 \$289,653,609 \$156,045,391 \$445,699,000

Short-term investments, at fair market value, and cash

1,363,116 1,135 1,364,251 9,251,565 1,104 9,252,669

Other receivables

663,345 663,345

Interest receivable

22,460 4 22,464 72,491 1 72,492

Employer contribution receivable

13,787 13,787 6,000 6,000

Total assets

369,446,828 141,902,653 511,349,481 298,983,665 156,046,496 455,030,161

Liabilities

Notes payable

114,000,000 114,000,000 140,900,000 140,900,000

Other payables

45,413 45,413 96,812 96,812

Total liabilities

45,413 114,000,000 114,045,413 96,812 140,900,000 140,996,812

Net assets available for plan benefits

\$369,401,415 \$27,902,653 \$397,304,068 \$298,886,853 \$15,146,496 \$314,033,349

Table of Contents**THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP****PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES**

Notes to Financial Statements

December 31, 2005 and 2004

The following table presents the breakdown of the changes in net assets available for plan benefits between the 401(k) Plan and the ESOP for the years ended December 31, 2005 and 2004.

	Year ended December 31, 2005			Year ended December 31, 2004		
	401(k) Plan	ESOP	Total	401(k) Plan	ESOP	Total
Investment activity:						
Interest income	\$ 16,577,644	\$ 139,239	\$ 16,716,883	\$ 11,876,901	\$ 53,195	\$ 11,930,096
Dividend income	20,861,917	16,244,257	37,106,174	40,095,723	16,666,919	56,762,642
Realized gains	67,007,763	7,809,613	74,817,376	40,632,479	10,790,096	51,422,575
Unrealized gains	23,043,895	69,471,910	92,515,085	91,400,267	71,762,075	163,162,342
Total investment activity	127,491,219	93,665,019	221,156,238	184,005,370	99,272,285	283,277,655
Contributions:						
Employer contributions	43,814,359	23,202,818	67,017,177	41,378,089	19,538,575	60,916,664
Employee contributions	187,877,433		187,877,433	294,180,202		294,180,202
Total contributions	231,691,792	23,202,818	254,894,610	335,558,291	19,538,575	355,096,866
Interplan transfer of assets				15,318,338	(15,318,338)	
Deductions:						
Benefits paid to participants	114,489,001	21,592,438	136,081,439	158,052,958	13,643,308	171,696,566
Interest expense		12,004,680	12,004,680		13,904,640	13,904,640
Administrative expenses	4,082,452		4,082,452	4,834,012		4,834,012
Other deductions				18,550,698	2,792,244	21,342,942
Total deductions	118,571,453	33,597,118	152,168,571	181,437,668	30,340,492	211,778,160
Net increase for the year	240,611,558	83,270,719	323,882,277	353,444,331	73,152,030	426,596,361
Net assets beginning of the year	1,596,754,142	314,033,349	1,910,787,491	1,243,309,811	240,881,319	1,484,191,130
Net assets end of the year	\$ 1,837,365,700	\$ 397,304,068	\$ 2,234,669,768	\$ 1,596,754,142	\$ 314,033,349	\$ 1,910,787,491

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Notes to Financial Statements

December 31, 2005 and 2004

The following table presents the changes in net assets available for ESOP benefits separately, on an accrual basis, according to:

The accounts of employees with rights to allocated stock (Allocated); and

Stock not yet allocated to employees (Unallocated).

	Year ended December 31, 2005			Year ended December 31, 2004		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
Additions/(deductions):						
Allocation of CVS Corporation Series One ESOP Convertible Preference Stock, at liquidation value (335,694 shares and 312,394 shares in 2005 and 2004, respectively)	\$ 17,942,831	\$ (17,942,831)	\$	\$ 16,697,573	\$ (16,697,573)	\$
Interest income	139,205	34	139,239	53,181	14	53,195
Dividend income		16,244,257	16,244,257		16,666,919	16,666,919
Realized gain	7,809,613		7,809,613	10,790,096		10,790,096
Unrealized gains	65,672,956	3,798,954	69,471,910	50,187,604	21,574,471	71,762,075
Employer contributions	542,395	22,660,423	23,202,818	854	19,537,721	19,538,575
Total additions	92,107,000	24,760,837	116,867,837	77,729,308	41,081,552	118,810,860
Deductions:						
Benefits paid to participants	21,592,438		21,592,438	13,643,608		13,643,608
Interest expense		12,004,680	12,004,680		13,904,640	13,904,640
Other deductions				2,792,244		2,792,244
Transfer of assets to 401(k) Plan				15,318,338		15,318,338
Total deductions	21,592,438	12,004,680	33,597,118	31,754,190	13,904,640	45,658,830
Net increase for the year	70,514,562	12,756,157	83,270,719	45,975,118	27,176,912	73,152,030
Net assets/(liabilities) available for plan benefits:						
Beginning of the year	298,886,853	15,146,496	314,033,349	252,911,735	(12,030,416)	240,881,319
End of the year	\$ 369,401,415	\$ 27,902,653	\$ 397,304,068	\$ 298,886,853	\$ 15,146,496	\$ 314,033,349

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THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP

PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES

Notes to Financial Statements

December 31, 2005 and 2004

(b) Investment Valuation

The value of the investments in the 401(k) portion of the Plan held at December 31, 2005 and 2004 is based on the fair value of the underlying funds except for guaranteed insurance contracts which are valued at contract value. The contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. The value fluctuates in response to various factors including, but not limited to, the price of the shares in the underlying funds, dividends paid, earnings and losses and the mix of assets in the respective fund. The fair value for the guaranteed insurance contracts at December 31, 2005 and 2004 was \$324,556,422 and \$307,357,091, respectively. The average yield for 2005 and 2004 was 4.25% and 4.50%, respectively.

Short-term investments, which consist primarily of cash and cash equivalents, and loans to participants, are at fair value.

The ESOP portion of the Plan invests its funds primarily in ESOP Preference Stock. The investment in ESOP Preference Stock is carried at the higher of the cash liquidation value of \$53.45 or 4.628 times the market value of an equivalent share of CVS Common Stock. The market value of CVS Common Stock was \$26.42 and \$22.53 per share at December 31, 2005 and 2004, respectively.

(c) Benefits Paid

Benefits are recorded when paid.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for plan benefits during the reporting period. Actual results could differ from those estimates.

(e) Accrual Basis of Accounting

The Plan utilizes the accrual basis of accounting, except for benefit payments.

(f) Purchase and Sale of Securities

Purchase and sales of securities are made on a trade-date basis.

(g) Investment Income

Dividend and interest income is recorded when earned.

(h) Stock Split

On May 12, 2005, CVS Board of Directors authorized a two-for-one stock split, which was effected in the form of a dividend by the issuance of an additional share of CVS common stock for each share of CVS common stock outstanding. All CVS common stock share amounts have been restated to reflect the effect of the stock split.

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**THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP
PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES**

Notes to Financial Statements

December 31, 2005 and 2004

(i) Reclassifications

Certain reclassifications were made to the 2004 financial statements to conform to the current year presentation.

(3) Loans to Participants

Participants may obtain bona fide loans from the Plan, utilizing funds accumulated in their accounts. The minimum amount, which may be borrowed is \$1,000. Participants can borrow up to 50% of their vested account balance but not more than \$50,000 less their highest outstanding loan balance during the previous twelve months. The loans are repaid to the Plan through after-tax payroll deductions. The term of the loan is selected at the discretion of the participant, but may not exceed five years for a general loan and twenty-five years for a home purchase loan. Interest on loans is equal to the Prime rate plus 1%.

(4) Investment Policy

At December 31, 2005 and 2004, most of the Plan's 401(k) related assets were allocated among the investment options discussed in note 1(j) based on Employee's elections. The investment options are administered by independent investment managers. Employee asset allocations that are awaiting processing are temporarily invested in commingled funds held by a bank-administered trust fund. These commingled funds are also used to account for and administer participants' loans. The loan repayments and interest earned are allocated to each of the investment funds based upon the participants' contribution election percentages.

Net unrealized appreciation (depreciation) represents the net difference between the fair value of the investment and its historical cost basis if purchased during the Plan year or the change in its fair value during the Plan year. During 2005 and 2004, the Plan's investments (including investments bought, sold and held during the year) experienced net appreciation as follows:

	2005		2004	
	Realized	Unrealized	Realized	Unrealized
401(k) Plan	\$ 67,007,763	\$ 23,043,895	\$ 40,632,479	\$ 91,400,267
ESOP	7,809,613	69,471,910	10,790,096	71,762,075
	\$ 74,817,376	\$ 92,515,805	\$ 51,422,575	\$ 163,162,342

(5) Plan Termination and Related Commitments

Although it has not expressed any intention to do so, CVS has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. If CVS terminates the Plan, all participants in the Plan become fully vested.

(6) Federal Income Taxes

The Plan is qualified pursuant to Section 401(a) and 4975(e)(7) of the Code and the trust established under the Plan to hold the Plan's assets is exempt from Federal income taxes pursuant to Section 501(a) of the Code; accordingly, the trust's net investment income is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service and the Plan's sponsor believes that the Plan, as amended, continues to qualify and operate as designed.

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Notes to Financial Statements

December 31, 2005 and 2004**(7) Investment Valuation**

The following table presents the total investments of the Plan segregated by investment type. Investments that represent 5% or more of the fair value of the Plan's assets are marked by an asterisk (*).

	2005	2004
Mutual funds:		
Vanguard Index Trust 500 Portfolio Fund	\$ 251,571,607*	\$ 234,907,140*
PIMCO Total Return Admin Fund	163,558,703*	140,783,917*
Templeton International Fund	121,840,396*	103,231,760
Vanguard Explorer Fund	37,479,817	30,686,166
American Funds New Perspective	73,003,903	56,143,426
Columbia Small Cap Value Fund	185,948,151*	173,930,647*
J & W Seligman Large Cap Value Fund	245,014,921*	201,534,223*
Columbus Circle Core Equity Fund	236,106,376*	202,430,997*
Commingled Fund	431,964	1,077,136
	1,314,955,838	1,144,725,412
CVS Corporation Common Stock Fund	11,597,055	4,233,490
CVS Corporation Common Stock	104,817,104	76,555,252
Loans to participants	54,981,921	48,213,063
Guaranteed insurance contracts	327,816,842*	301,674,746*
Allocated: CVS Corp Series One ESOP Convertible Stock	367,384,120*	289,653,609*
Short-term investments	1,363,116	9,251,565
Unallocated: CVS Corp Series One ESOP Convertible Stock	141,901,514*	156,045,391*
Short-term investments	1,135	1,104
	\$ 2,324,818,645	\$ 2,030,353,632

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**THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP
PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES**

Schedule of Assets (Held at End of Year)

December 31, 2005

Fund	Par value/ number of shares	Identity Of Investment	Description	Cost	Fair value
Loans to participants		Loans to participants*	Prime plus 1% at loan request date	\$	\$ 54,981,921
Commingled	431,964	Bank of New York*	Collective Short-Term Investment Fund Non-Discretionary	431,964	431,964
Lifestyle Conservative Fund	111,245	Vanguard Institutional Index Trust 500 Portfolio Fund	Mutual Fund	11,406,747	12,683,094
	1,462,262	PIMCO Total Return Admin Fund	Mutual Fund	15,626,706	15,353,753
	27,929,875	State Street Bank	Various GICs held at State Street	27,929,875	27,929,875
Lifestyle Conservative Fund Subtotal					55,966,722
Lifestyle Moderate Fund	207,741	Vanguard Institutional Index Trust 500 Portfolio Fund	Mutual Fund	21,714,827	23,684,514
	4,370,024	PIMCO Total Return Admin Fund	Mutual Fund	46,562,089	45,885,252
	1,253,495	Templeton International Fund	Mutual Fund	13,536,556	15,894,313
	860,362	Columbia Small Cap Value Fund	Mutual Fund	14,245,533	15,899,501
	15,456,473	State Street Bank	Various GICs held at State Street	15,456,473	15,456,473
Lifestyle Moderate Fund Subtotal					116,820,053

See accompanying report of independent registered public accounting firm.

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**THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP
PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES**

Schedule of Assets (Held at End of Year) (Continued)

December 31, 2005

Fund	Par value/ number of shares	Identity of issue	Description	Cost	Fair value
Lifestyle Aggressive Fund	163,131	Vanguard Institutional Index Trust 500 Portfolio Fund	Mutual Fund	\$ 16,828,269	\$ 18,598,590
	3,432,689	PIMCO Total Return Admin Fund	Mutual Fund	36,571,619	36,043,234
	2,214,311	Templeton International Fund	Mutual Fund	23,238,974	28,077,463
	3,040,064	Columbia Small Cap Value Fund	Mutual Fund	48,960,800	56,180,386
Lifestyle Aggressive Fund Subtotal					138,899,673
International Equity Fund	6,141,058	Templeton International Fund	Mutual Fund	67,667,357	77,868,620
Core Equity Fund	1,724,457	Vanguard Institutional Index Trust 500 Portfolio Fund	Mutual Fund	180,577,113	196,605,409
Growth & Income Fund	6,277,166	J & W Seligman Large Cap Value	Mutual Fund	187,463,162	243,020,771
	1,994,150	Bank of New York*	Collective Short-Term Invest. Fund	1,994,150	1,994,150
Growth & Income Fund Subtotal					245,014,921
Large Cap Growth Fund	5,655,390	Columbus Circle Core Equity Fund	Mutual Fund	180,913,921	231,223,193
	4,883,183	Bank of New York*	Collective Short- Term Invest. Fund	4,883,183	4,883,183
Large Cap Growth Fund Subtotal					236,106,376
Small Cap Growth Fund	536,115	Vanguard Explorer Fund	Mutual Fund	35,916,325	37,479,817
Diversified Bond Fund	6,312,044	PIMCO Total Return Admin Fund	Mutual Fund	67,719,574	66,276,464
Small Cap Value Fund	6,161,703	Columbia Small Cap Value Fund	Mutual Fund	102,510,457	113,868,264
Large Cap Blend Fund	2,550,800	American Funds New Perspective	Mutual Fund	65,038,049	73,003,903
Investment Contract Fund	284,430,494	State Street Bank	Various GICs held at State Street	284,430,494	284,430,494

See accompanying report of independent registered public accounting firm.

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**THE 401(k) PLAN AND THE EMPLOYEE STOCK OWNERSHIP
PLAN OF CVS CORPORATION AND AFFILIATED COMPANIES**

Schedule of Assets (Held at End of Year) (Continued)

December 31, 2005

Fund	Par value/ number of shares	Identity of issue	Description	Cost	Fair value
CVS Corporation Common Stock Fund	376,101	CVS Corporation Common Stock Fund*	Common Stock	\$ 10,468,606	\$ 9,936,588
	1,660,467	Bank of New York*	Collective Short-Term Investment Fund Non-Discretionary	1,660,467	1,660,467
CVS Stock Fund Subtotal					11,597,055
CVS Corporation Common Stock	3,926,927	CVS Corporation Common Stock*	CVS Corporation Common Stock	87,661,994	103,749,411
	1,067,693	Bank of New York*	Collective Short-Term Investment Fund Non- Discretionary	1,067,693	1,067,693
CVS Corporation Common Stock Subtotal					104,817,104
Allocated CVS Corp Series One ESOP Convertible Preference Stock	3,004,652	ESOP Preference Stock*	ESOP Preference Stock	160,598,663	367,384,120
Allocated Short-Term Investments	806,429		Collective Short-Term Investment Fund	806,429	1,363,116
Unallocated CVS Corp Series One ESOP Convertible Preference Stock	1,160,542	ESOP Preference Stock*	ESOP Preference Stock	62,030,970	141,901,514
Unallocated Short-Term Investments	1,135		Collective Short-Term Investment Fund	1,135	1,135
					\$ 2,324,818,645

*Party-in-interest

See accompanying report of independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

THE 401(k) PLAN AND THE
EMPLOYEE STOCK OWNERSHIP
PLAN OF CVS CORPORATION AND
AFFILIATED COMPANIES

Date: June 28, 2006

By: /s/ David B. Rickard
David B. Rickard
Senior Executive and Financial
Member of the Plan Committee

EXHIBIT INDEX

Exhibit	Description
23	Consent of Independent Registered Public Accounting Firm