

ISLE OF CAPRI CASINOS INC  
Form 10-K  
June 25, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

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(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended April 26, 2009

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-20538

**ISLE OF CAPRI CASINOS, INC.**

(Exact name of registrant as specified in its charter)

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

**41-1659606**  
(I.R.S. Employer Identification Number)

**600 Emerson Road, Suite 300, St. Louis, Missouri**  
(Address of principal executive offices)

**63141**  
(Zip Code)

Registrant's telephone number, including area code: **(314) 813-9200**

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**Securities Registered Pursuant to Section 12(b) of the Act: None**

**Securities Registered Pursuant to Section 12(g) of the Act:**

**Common Stock, \$.01 Par Value Per Share**

(Title of Class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting stock held by non-affiliates<sup>1</sup> of the Company is \$57,119,811, based on the last reported sale price of \$3.57 per share on October 24, 2008 on the NASDAQ Stock Market; multiplied by 15,999,947 shares of Common Stock outstanding and held by non-affiliates of the Company on such date.

As of June 22, 2009, the Company had a total of 31,771,153 shares of Common Stock outstanding (which excludes 4,340,436 shares held by us in treasury).

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Part III incorporates information by reference to the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year.

(1) Affiliates for the purpose of this item refer to the directors, named executive officers and/or persons owning 10% or more of the Company's common stock, both of record and beneficially; however, this determination does not constitute an admission of affiliate status for any of the individual stockholders.

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**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

*This Annual Report contains statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Annual Report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "foresee," "project," "anticipate," "believe," "plans," "forecasts," "continue" or "could" or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause actual results to differ include, but are not limited to, those discussed in the section entitled "Risk Factors" beginning on page 11 of this report. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Annual Report.*

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in regional markets in the United States and internationally. We currently operate 14 casinos in the United States, located in Mississippi, Louisiana, Missouri, Iowa, Colorado and Florida. Internationally we operate 3 casinos in Dudley and Wolverhampton, England and Freeport, Grand Bahamas. We also operate a harness racing track at our casino in Florida.

Our fiscal year ends each year on the last Sunday in April.

During fiscal 2009, we made several key accomplishments that significantly impacted our operational and financial results. We:

streamlined operations resulting in decreased on-going property operating costs of approximately \$45 million compared to FY 2008, and decreased on-going corporate and development costs by an additional \$7.3 million compared to FY 2008;

stabilized operating results despite a \$50 million net revenue decline significantly caused by economic conditions;

completed a \$142.7 million cash tender offer for the Company's debt and settled the remaining insurance claims related to Hurricane Katrina for \$95 million;

focused on improved results through domestic operations by exiting the Coventry, UK operation and announcing plans to exit the Grand Bahama gaming market.

During fiscal 2009 we began to implement the strategic plan designed in fiscal 2008 to improve our free cash flow. This plan includes a distinct emphasis on operational excellence, including the core aspects of our business: creating an experience that is clean, safe, friendly and fun. This approach has been shown through extensive customer research to embody the attributes of a gaming entertainment experience most important to customers in choosing which casino to visit. Additionally, we have outlined our plan for developing two distinct brands within our business, Isle and Lady Luck, and reinvesting in our core assets.

The Isle brand will be introduced at our properties which have a regional draw and tend to be in larger markets where we have expansion potential demonstrated by either the size of the market or excess land that we control. The Isle brand will offer expanded amenities, usually offering hotel rooms, expanded food and beverage offerings and conference and convention capabilities.

The Lady Luck casinos will be focused on a local customer base, typically in smaller markets with less growth potential. The goal of the Lady Luck brand will be to offer the best entertainment option for the respective market featuring casual dining, and popular local entertainment in a comfortable setting. During fiscal 2009, we neared completion of our first two Lady Luck-branded properties.

The operating focus of both brands is to deliver superior guest experiences. We are implementing several operating initiatives to improve on these attributes and made significant progress in fiscal 2009 according to our internal measurements. To this end we have implemented a customer courtesy program whereby we will measure our progress against three primary courtesy behaviors and incentivise our employees on improvements. In addition our maintenance, capital, and operating plans have been designed to improve on areas where customers have told us we are lacking in these key areas of clean, safe, friendly and fun. Finally we have designed our incentive plans to align employee incentives with the key initiatives and shareholders' needs.

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Because of the impact of the economic uncertainty in our markets, we decided in fiscal year 2009, to curtail the majority of our brand conversions and other significant capital projects.

Currently, we have prioritized approximately \$60 million in capital projects that we expect to deploy over the next 24 to 36 months, primarily focused on hotel room renovations to increase our overnight business. Importantly, we emphasize that we will not begin these expenditures until we have more clarity regarding the economy and our own financial position.

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### Casino Properties

The following is an overview of our existing casino properties as of the end of fiscal year 2009:

Property	Date Acquired or Opened	Slot Machines	Table Games	Hotel Rooms	Parking Spaces
<i>Louisiana</i>					
Lake Charles	July 1995	1,856	71	493	2,335
<i>Mississippi</i>					
Lula	March 2000	1,309	17	484	1,583
Biloxi	August 1992	1,514	40	710	1,600
Natchez	March 2000	622	10	141	908
<i>Missouri</i>					
Kansas City	June 2000	1,251	20		1,807
Boonville	December 2001	1,004	21	140	1,101
Caruthersville	June 2007	608	23		1,000
<i>Iowa</i>					
Bettendorf	March 2000	1,016	31	514	2,063
Rhythm City-Davenport	October 2000	977	16		968
Marquette	March 2000	603	13	25	475
Waterloo	July 2007	1,092	35	195	1,487
<i>Colorado</i>					
Black Hawk	December 1998	1,369	18	238	1,100
Colorado Central Station Black Hawk	April 2003	652	16	164	1,200
<i>Florida</i>					
Pompano Park	July 1995/April 2007	1,500	38		4,663
<i>International Properties</i>					
Our Lucaya	December 2003	253	25		
Blue Chip-Dudley (66 <sup>2</sup> / <sub>3</sub> % owned)	November 2003	20	9		40
Blue Chip-Wolverhampton (66 <sup>2</sup> / <sub>3</sub> % owned)	April 2004	20	11		25
		15,666	414	3,104	22,355

### *Louisiana*

#### *Lake Charles*

Lake Charles, which commenced operations in July 1995, is located on a 19-acre site along Interstate 10, the main thoroughfare connecting Houston, Texas to Lake Charles, Louisiana. The property consists of two dockside casinos offering 1,856 slot machines, 46 table games, 25 poker tables, a 252 room deluxe hotel, a 241 room inn hotel, a 105,000 square foot land-based pavilion and entertainment center, and 2,335 parking spaces, including approximately 1,400 spaces in an attached parking garage. The pavilion and entertainment center offer customers a wide variety of non-gaming amenities, including a 97-seat Farradays' restaurant, a 360-seat Calypso's buffet, a 165-seat Tradewinds Marketplace, a 64-seat Lucky Wins oriental restaurant and Caribbean Cove, which features free live entertainment and can accommodate 180 customers. The pavilion also has a 14,750 square foot entertainment center comprised of a 1,100-seat special events center designed for concerts, live boxing, televised pay-per-view events, banquets and other events, meeting facilities and administrative offices.

The Lake Charles market currently consists of two dockside gaming facilities (which include our property and Pinnacle Entertainment's one-level facility), a Native American casino and a pari-mutuel facility/racino (operated by Boyd Gaming). Pinnacle Entertainment has announced plans to developing their second casino (utilizing a license acquired from Harrah's Entertainment after Hurricane Rita)



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which would be adjacent to their current facility. The expected completion date is unknown at this time due to delays in financing and construction. The current number of slot machines in the market exceeds 8,200 machines and table games exceed 200 tables. In calendar year 2008, the two gaming facilities (Isle and Pinnacle) and one racino (Boyd), in the aggregate, generated gaming revenues of approximately \$651.2 million. Revenues for the Native American property are not published. Lake Charles is the closest gaming market to the Houston metropolitan area, which has a population of approximately 5.5 million and is located approximately 140 miles west of Lake Charles. We believe that the Isle-Lake Charles attracts customers primarily from southeast Texas, including Houston, Beaumont, Galveston, Orange and Port Arthur and from local area residents. Approximately 520,000 and 1.6 million people reside within 50 and 100 miles, respectively, of the Isle-Lake Charles.

*Mississippi*

*Lula*

Lula, which we acquired in March 2000, is strategically located off of Highway 49, the only road crossing the Mississippi River between Mississippi and Arkansas for more than 50 miles in either direction. The property consists of two dockside casinos containing 1,309 slot machines and 17 table games, two on-site hotels with a total of 484 rooms, a land-based pavilion and entertainment center, 1,583 parking spaces, and a 28-space RV Park. The pavilion and entertainment center offer a wide variety of non-gaming amenities, including a 145-seat Farraddays' restaurant, a 300-seat Calypso's buffet and a 44-seat Tradewinds Marketplace, and a gift shop. All 171 rooms of our Coral Reef Hotel underwent complete renovation during the past calendar year, re-opening in December 2008.

Our Lula property is the only gaming facility in the Coahoma County, Mississippi market and generated gaming revenues of approximately \$69.9 million in calendar year 2008. Lula draws a significant amount of business from the Little Rock, Arkansas metropolitan area, which has a population of approximately 675,000 and is located approximately 120 miles west of the property. Coahoma County is also located approximately 60 miles southwest of Memphis, Tennessee, which is primarily served by 9 casinos in Tunica County, Mississippi. In November 2008, Arkansas voters approved a constitutional amendment that would allow the establishment of a statewide lottery. Although lottery sales have not yet been initiated, a Lottery Commission has been established and progress is being made toward that end. Approximately 1,007,000 people reside within the property's primary target market. Lula also competes with Native American casinos in Oklahoma and a racino in West Memphis, Arkansas.

*Biloxi*

Biloxi, which commenced operations in August 1992, is located on a 17-acre site at the eastern end of a cluster of facilities formerly known as "Casino Row" in Biloxi, Mississippi, and is the first property reached by visitors coming from Alabama, Florida and Georgia via Highway 90.

On August 29, 2005 the property was significantly damaged by Hurricane Katrina. The property was closed on August 28, 2005 and remained closed to the public until December 26, 2005. The Highway 90 bridge spanning Biloxi Bay, located immediately to the east of the property, was also destroyed by the hurricane. The bridge was replaced with a new, larger bridge which partially opened in November 2007 and fully opened in April 2008.

In October 2005, the Mississippi legislature amended its gaming laws to allow casinos to operate land-based facilities within 800 feet of the mean high water line. Our Biloxi property is a land-based casino offering approximately 1,514 gaming positions, a 710-room hotel including 200 whirlpool suites, a 120-seat banquet room called "Paradise Room," 138-seat fine-dining restaurant called Farraddays, a 200-seat Calypso's buffet, a Tradewinds Express, a multi-story feature bar, a full service Starbucks and 1,600 parking spaces.

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The Mississippi Gulf Coast market (which includes Biloxi, Gulfport and Bay St. Louis) is one of the largest gaming markets in the United States and consists of 11 dockside gaming facilities which, in the aggregate, generated gaming revenues of approximately \$1.3 billion during calendar year 2008.

#### *Natchez*

Natchez, which we acquired in March 2000, is located off of Highways 84 and 61 in western Mississippi. The property consists of a dockside casino offering 622 slot machines and 10 table games, a 141-room off-site hotel located approximately one mile from the casino, a 150-seat Calypso's buffet and 908 parking spaces.

Our property is currently the only gaming facility in the Natchez market and generated total revenues of approximately \$40.8 million in calendar year 2008. We believe that the Isle-Natchez attracts customers primarily from among the 117,000 people residing within 50 miles of the Isle-Natchez. The Grand Soleil Casino Company began site construction for its river boat casino and land-based hotel during early 2008. Construction has been halted and restarted several times due to legal and financial issues. Future status of the facility is unknown at this time.

#### *Missouri*

##### *Kansas City*

Our Kansas City property, which we acquired in June 2000, is the closest gaming facility to downtown Kansas City and consists of a dockside casino offering 1,251 slot machines and 20 table games, a 260-seat Calypso's buffet, a 45-seat Tradewinds Marketplace and 1,807 parking spaces.

The Kansas City market consists of four dockside gaming facilities and a tribal casino that, in the aggregate, generated gaming revenues of approximately \$739.1 million in calendar year 2008. The other operators of the dockside gaming facilities in this market are Ameristar Casinos, Penn National Gaming, Harrah's Entertainment and the tribal casino, owned by the Wyandotte Tribe. We believe that our Kansas City casino attracts customers primarily from the Kansas City metropolitan area, which has approximately 1.9 million residents.

In the spring of 2007, the Kansas legislature authorized casinos in several locations throughout the State of Kansas. To date, no casino construction has commenced in the Kansas City area. The Kansas Lottery is currently reviewing applications for potential casino locations which could compete with the Kansas City market.

In the fourth quarter of fiscal year 2008, the State of Missouri, began reconstruction of the Paseo Bridge and interchanges adjacent to our property. The bridge and interchange construction is expected to continue into our fiscal year 2011. Access to our property will be hampered due to lane restrictions related to bridge construction and temporary entrance/exit ramp designs until the construction is completed.

##### *Boonville*

Our Boonville property, which opened on December 6, 2001, is located 3 miles off Interstate 70, approximately halfway between Kansas City and St. Louis. The property consists of a single level dockside casino offering 1004 slot machines, 21 table games, a 140-room hotel that opened in May 2006, a 32,400 square foot pavilion and entertainment center and 1,101 parking spaces. The pavilion and entertainment center offers customers a wide variety of non-gaming amenities, including an 83-seat Farradays' restaurant, a 218-seat Calypso's buffet, a 24-seat Tradewinds Marketplace, an 800 seat event center, and a historic display area. We are the only gaming facility between Kansas City, Missouri, and St. Louis, Missouri and generated gaming revenues of approximately \$80.3 million in calendar year

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2008. We believe that our Boonville casino attracts customers primarily from the mid-Missouri region including the Columbia and Jefferson City areas.

#### *Caruthersville*

Our Caruthersville property was acquired on June 11, 2007 and is a riverboat casino located along the Mississippi River in Southeast Missouri. In June 2008, the casino was re-branded as a Lady Luck casino. The dockside casino offers 608 slot machines, 15 table games and 8 poker games. As part of the re-brand, the property renovated its 40,000 square foot pavilion, which includes a 130-seat Lone Wolf restaurant and bar and lounge and a 270-seat Otis & Henry's restaurant. Renovations to the riverboat including the casino floor have begun with completion scheduled for summer of 2009. The property also operates a 10,000 square foot exposition center with seating for up to 1,100 patrons and has 1,000 parking spaces. Our Caruthersville facility is the only casino located in Southeast Missouri and generated gaming revenues of approximately \$31.9 million in calendar year 2008.

#### *Iowa*

##### *Bettendorf*

The Bettendorf property, which we acquired in March 2000, is located off of Interstate 74, an interstate highway serving the Quad Cities metropolitan area. The property consists of a dockside casino offering 1,016 slot machines and 31 table games, a 514-hotel rooms, 40,000 square feet of flexible convention/banquet space, a 102-seat Farraddays' restaurant, a 272-seat Calypso's buffet, a 26-seat Tradewinds Marketplace and 2,063 parking spaces. We have entered into agreements with the City of Bettendorf, Iowa under which we manage and provide financial and operating support for the QC Waterfront Convention Center that is adjacent to our hotel rooms. The QC Waterfront Convention Center opened in January 2009.

The Quad Cities metropolitan area, consisting of Bettendorf and Davenport, Iowa and Moline and Rock Island, Illinois, currently has three gaming operations our two gaming facilities in Bettendorf and in Davenport, and one operator, which opened a larger land-based facility, including a hotel, in December 2008. The three operations in the Quad Cities generated, in the aggregate, gaming revenues of approximately \$186.5 million in calendar year 2008. Our operations in the Quad Cities also compete with other gaming operations in Illinois and Iowa.

##### *Davenport*

Our Davenport property, which we acquired in October 2000, is located at the intersection of River Drive and Highway 61, a state highway serving the Quad Cities metropolitan area. The property consists of a dockside gaming facility offering 977 slot machines and 16 table games, a 228-seat Hit Parade buffet, a Grab-n-Go food outlet and 968 parking spaces.

##### *Marquette*

Our Marquette property, which we acquired in March 2000, is located in Marquette, Iowa, approximately 60 miles north of Dubuque, Iowa. The property consists of a dockside casino offering 603 slot machines and 13 table games, a 25-room hotel, a marina and 475 parking spaces. During fiscal 2009, we began rebranding of the property as a Lady Luck casino. Upon completion, the facility will include a newly themed 158-seat buffet restaurant, an Otis and Henry's Express food outlet and a Lone Wolf restaurant and bar. We expect the rebranding to be completed during calendar 2009.

We are the only gaming facility in the Marquette, Iowa market and generated gaming revenues of approximately \$32.8 million in calendar year 2008. We believe most of our Marquette customers are

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from northeast Iowa and Wisconsin and we compete for those customers with other gaming facilities in Iowa and Wisconsin.

#### *Waterloo*

Our Waterloo property, which opened on June 30, 2007, is located adjacent to Highway 218 and US 20 in Waterloo, Iowa. The property consists of a single level casino offering 1,092 slot machines, 29 table games and 6 poker tables. The property also offers a wide variety of non-gaming amenities, including a 105-seat Farradays' restaurant, a 208-seat Isle buffet, a 36-seat Tradewinds marketplace, Club Capri Lounge, Fling feature bar, 5,000 square feet of meeting space, over 1,487 parking spaces and a 195-room hotel, which includes 27 suites, as well as an indoor pool and hot tub area.

We are the only gaming facility in the Waterloo, Iowa market. We compete with other casinos in eastern Iowa. We generated gaming revenues of approximately \$77.4 million in calendar year 2008.

#### *Colorado*

##### *Black Hawk*

Our Black Hawk property, which operates as an Isle branded casino, commenced operations in December 1998, is located on an approximately 10-acre site and is one of the first gaming facilities reached by customers arriving from Denver via Highway 119, the main thoroughfare connecting Denver to Black Hawk. The property includes a land-based casino with 1,369 slot machines and 18 table games, a 238-room hotel and 1,100 parking spaces in an attached parking garage. The Isle-Black Hawk also offers customers a wide variety of non-gaming amenities, including a 114-seat Farradays' restaurant, a 271-seat Calypso's buffet and a 36-seat Tradewinds Marketplace.

##### *The Colorado Central Station-Black Hawk*

The Colorado Central Station-Black Hawk, which we acquired in April 2003, is located across the intersection of Main Street and Mill Street from the Isle-Black Hawk. The property consists of a land-based casino with 652 slot machines, 6 standard table games, a 10 table poker room, a 164-room hotel that opened in December 2005 and 1,200 parking spaces in our parking structure connecting Isle-Black Hawk and Colorado Central Station-Black Hawk. The property also offers guests dining in its 94 seat Station Café that was opened in early 2007 as well as a 6 seat Quizno's sandwich franchise that is located in the lower level of the facility. All three sites are connected via sky bridges.

When casinos having multiple gaming licenses in the same building are combined, the Black Hawk/Central City market consists of 22 gaming facilities (nine of which have more than 600 slot machines), which in aggregate, generated gaming revenues of approximately \$575.8 million in calendar year 2008. Black Hawk is the closest gaming market to the Denver, Colorado metropolitan area, which has a population of approximately 2.7 million and is located approximately 40 miles east of Black Hawk. We believe that the Black Hawk and Colorado Central Station-Black Hawk attract customers primarily from Denver, Boulder, Fort Collins and Golden, Colorado.

*Changes to Colorado Gaming Laws* During fiscal year 2009, the voters of Colorado approved changes to gaming law, effective during July, 2009, which extend the hours of operations, expand the types of allowable table games and increase the betting limits from \$5 to \$100 per bet.

#### *Florida*

##### *Pompano*

In 1995, we acquired Pompano Park, a harness racing track located in Pompano Beach, Florida. Pompano Park is located off of Interstate 95 and the Florida Turnpike on a 223-acre owned site, near

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Fort Lauderdale, midway between Miami and West Palm Beach. Pompano Park is the only racetrack licensed to conduct harness racing in Florida.

On April 14, 2007, following changes to Florida law, we opened a gaming facility including 1,500 slot machines, two restaurants and a feature bar at Pompano Park adjacent to the existing grandstand at a cost of approximately \$190 million. Two additional restaurants and a new poker room with 38 tables on the second floor of the facility opened in May 2007. One of the restaurants was closed in October 2008 allowing for a greater profit margin of the remaining second floor restaurant. The Isle-Pompano draws most of its customers from the approximately 2.6 million people residing within a 25-mile radius of the facility and competes with two other racinos and two tribal gaming facilities in the market.

During May 2009, the Florida legislature passed legislation which, if enacted, would lower our state gaming tax rate from 50% to 35%. This legislation is contingent upon a number of factors, including but not limited to, negotiation of a gaming compact between the State of Florida and the Seminoles, approval of the compact by the Bureau of Indian Affairs and the Florida legislature. No assurance can be given that the current legislation will become effective.

### **Grand Bahama Island**

#### *Our Lucaya*

Our Lucaya is a 19,000 square-foot casino located at the Our Lucaya Resort in Freeport, Grand Bahama and offers 253 slot machines, 25 table games and a 110-seat restaurant. In May 2009, we entered into an agreement to continue operating the Isle of Capri Casino in Freeport, Grand Bahama during a transition period, following which we intend to exit the operation. Under the agreement, we will also continue to assist the Government of the Bahamas and the owner of the Our Lucaya Resort, Hutchison Lucaya Ltd, in their efforts to identify and select a new operator for the casino. The term of the transition period ends on August 31, 2009, although under certain circumstances, it may be extended for up to two additional months in order to allow sufficient time for a new operator to receive necessary approvals.

### **United Kingdom**

*Blue Chip Casino Operations* We currently operate the Blue Chip casino operations under a plan of administration which is similar to bankruptcy in the U.S. While we continue to operate these casinos, we are actively seeking purchasers for all Blue Chip assets under our current plan of administration and currently expect to complete the sale of all Blue Chip assets during fiscal year 2010.

#### *Blue Chip-Dudley*

Our pub-style casino in Dudley, England is one of 17 gaming facilities in the West Midlands market. Dudley is close to the Birmingham metropolitan area, which has a population of approximately 5.3 million. The casino consists of 20 slot machines, 9 table games, and 30 electronic touch bet table terminals. We own two-thirds of the Blue Chip-Dudley.

#### *Blue Chip-Wolverhampton*

Our pub-style casino in Wolverhampton, England is also in the West Midlands market. Wolverhampton is close to the Birmingham metropolitan area. The casino consists of 20 slot machines, 11 table games, and 34 electronic touch bet table terminals. We own two-thirds of the Blue Chip-Wolverhampton.

*Coventry* We operated a casino in the Coventry Convention Center from July 2007 through April of 2009, when we terminated our lease and sold the assets of our operations.

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**Marketing**

Our marketing programs are designed to promote our overall business strategy of providing customers with a safe, clean, friendly and fun gaming experience at each of our properties. We have developed an extensive proprietary database of customers that allows us to create effective targeted marketing and promotional programs that are designed to reward customer loyalty, attract new customers to our properties and maintain high recognition of our brands.

Specifically, as we implement our strategic plan, our marketing programs and initiatives are generally focused on the following areas:

*Customer Research:* Overall, our operating and marketing strategies have been developed and are being implemented to meet the needs and desires of our casino customers in each of our locations. In order to assess these needs and desires, we engage in significant customer research in each of our markets. Upon receipt of these surveys, we assess the attitudes of our customers and the customers of our competitive properties towards the most important attributes of their experience in a regional and/or local gaming facility. We use the extensive information gathered from these research initiatives to make marketing, operating and development decisions that, we believe, will optimize the position of our properties relative to our competition.

*Branding Initiatives:* As previously discussed, we have designed a strategic plan that will consolidate our property portfolio from four brands into two brands. We believe that this approach will allow us to most effectively align and promote our properties based upon customer needs and desires, will further allow us to more efficiently market our properties on a consolidated basis, and will streamline the costs associated with marketing our portfolio.

*Database Marketing:* We are streamlining our database marketing initiatives across the Company in order to focus our marketing efforts on profitable customers who have a proven willingness to regularly visit our properties. Specifically, our focus is on eliminating from our database customers who have historically been included in significant marketing efforts but have proven costly either as a result of excessive marketing expenditures on the part of the Company, or because these customers have become relatively dormant in terms of customer activity yet have remained active in our database.

*Segmentation:* We have compiled an extensive database of customer information over time. Among our most important marketing initiatives, we are currently introducing database segmentation to our properties in order to adjust investment rates to a level at which we expect to meet a reasonable level of customer profit contribution.

*Retail Development:* We believe that we must more effectively attract new, non-database customers to our properties in order to increase profitability and free cash flow. These customers are generally less expensive to attract and retain and, therefore, currently represent a significant opportunity for our operations.

**Employees**

As of April 26, 2009, we employed approximately 8,400 people. We have a collective bargaining agreement with UNITE HERE covering approximately 430 employees at our Pompano property which expires in May 2012. We believe that our relationship with our employees is satisfactory.

**Governmental Regulations**

The gaming and racing industries are highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations

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generally relate to the responsibility, financial stability and character of the owners, managers and persons with financial interests in the gaming operations. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, food service, smoking, environmental matters, employees and employment practices, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences interpretations by courts or governmental authorities could adversely affect our operating results.

**Available Information**

For more information about us, visit our web site at [www.isleofcapricasinos.com](http://www.isleofcapricasinos.com). Our electronic filings with the U.S. Securities and Exchange Commission (including all annual reports on Form 10-K, quarter reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our web site as soon as reasonably practicable after we electronically file them with or furnish them to the U.S. Securities and Exchange Commission.

**ITEM 1A. RISK FACTORS**

*We face significant competition from other gaming operations, including Native American gaming facilities that could have a material adverse effect on our future operations.*

The gaming industry is intensely competitive, and we face a high degree of competition in the markets in which we operate. We have numerous competitors, including land-based casinos, dockside casinos, riverboat casinos, casinos located on Native American-owned lands and at racing and pari-mutuel operations and video lottery and video poker machines not located in casinos. Some of our competitors may have better name recognition, marketing and financial resources than we do; competitors with more financial resources may therefore be able to improve the quality of, or expand, their gaming facilities in a way that we may be unable to match.

Legalized gaming is currently permitted in various forms throughout the United States. Certain states have recently legalized, and other states are currently considering legalizing gaming. Our existing gaming facilities compete directly with other gaming properties in Louisiana, Mississippi, Missouri, Iowa, Florida and Colorado. Our existing casinos attract a significant number of their customers from Houston, Texas; Mobile, Alabama; Kansas City, Kansas; Southern Florida; Little Rock, Arkansas and Denver, Colorado. Legalization of gaming in jurisdictions closer to these geographic markets than the jurisdictions in which our facilities are located would have a material adverse effect on our operating results. Other jurisdictions, including states in close proximity to jurisdictions where we currently have operations, have considered and may consider legalizing casino gaming and other forms of competition. In addition, there is no limit on the number of gaming licenses that may be granted in several of the markets in which we operate. As a result, new gaming licenses could be awarded to facilities in these markets, which could allow new gaming operators to enter our markets that could have an adverse effect on our operating results.

We also compete with other forms of legalized gaming and entertainment such as online computer gambling, bingo, pull tab games, card parlors, sports books, "cruise-to-nowhere" operations, pari-mutuel or telephonic betting on horse racing and dog racing, state-sponsored lotteries, jai-alai, and, in the

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future, may compete with gaming at other venues. In addition, we compete more generally with other forms of entertainment for the discretionary spending of our customers.

Our continued success depends upon drawing customers from each of these geographic markets. We expect competition to increase as new gaming operators enter our markets, existing competitors expand their operations, gaming activities expand in existing jurisdictions and gaming is legalized in new jurisdictions. We cannot predict with any certainty the effects of existing and future competition on our operating results.

***We are subject to extensive regulation from gaming and other regulatory authorities that could adversely affect us.***

***Licensing requirements.*** As owners and operators of gaming and pari-mutuel wagering facilities, we are subject to extensive state and local regulation. State and local authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. The regulatory authorities in the jurisdictions in which we operate have very broad discretion with regard to their regulation of gaming operators, and may for a broad variety of reasons and in accordance with applicable laws, rules and regulations, limit, condition, suspend, fail to renew or revoke a license to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries, or prevent other persons from owning an interest in us or doing business with us. We may also be deemed responsible for the acts and conduct of our employees. Substantial fines or forfeiture of assets for violations of gaming laws or regulations may be levied against us, our subsidiaries and the persons involved, and some regulatory authorities have the ability to require us to suspend our operations. The suspension or revocation of any of our licenses or our operations or the levy on us or our subsidiaries of a substantial fine would have a material adverse effect on our business.

To date, we have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming facilities. We cannot assure you that we will be able to retain these licenses, registrations, permits and approvals or that we will be able to obtain any new ones in order to expand our business, or that our attempts to do so will be timely. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals.

In addition, regulatory authorities in certain jurisdictions must approve, in advance, any restrictions on transfers of, agreements not to encumber or pledges of equity securities issued by a corporation that is registered as an intermediary company with such state, or that holds a gaming license. If these restrictions are not approved in advance, they will be invalid.

***Compliance with other laws.*** We are also subject to a variety of other federal, state and local environmental laws, regulations and ordinances that apply to non-gaming businesses. We are also subject to a variety of other local rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. Under various federal, state and local laws and regulations, an owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances or wastes located on its property, regardless of whether or not the present owner or operator knows of, or is responsible for, the presence of such substances or wastes. We have not identified any issues associated with our properties that could reasonably be expected to have an adverse effect on us or the results of our operations. However, several of our properties are located in industrial areas or were used for industrial purposes for many years. As a consequence, it is possible that historical or neighboring activities have affected one or more of our properties and that, as a result, environmental issues could



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arise in the future, the precise nature of which we cannot now predict. The coverage and attendant compliance costs associated with these laws, regulations and ordinances may result in future additional costs.

Regulations adopted by the Financial Crimes Enforcement Network of the U.S. Treasury Department require us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the patron by name and social security number. U.S. Treasury Department regulations also require us to report certain suspicious activity, including any transaction that exceeds \$5,000 if we know, suspect or have reason to believe that the transaction involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Substantial penalties can be imposed against us if we fail to comply with these regulations.

Several of our riverboats must comply with U.S. Coast Guard requirements as to boat design, on-board facilities, equipment, personnel and safety and must hold U.S. Coast Guard Certificates of Documentation and Inspection. The U.S. Coast Guard requirements also set limits on the operation of the riverboats and mandate licensing of certain personnel involved with the operation of the riverboats. Loss of a riverboat's Certificate of Documentation and Inspection could preclude its use as a riverboat casino. Each of our riverboats is inspected annually and, every five years, is subject to dry-docking for inspection of its hull, which could result in a temporary loss of service.

We are required to have third parties periodically inspect and certify all of our casino barges for stability and single compartment flooding integrity. Our casino barges and other facilities must also meet local fire safety standards. We would incur additional costs if any of our gaming facilities were not in compliance with one or more of these regulations.

*Potential changes in legislation and regulation of our operations.* From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. In addition, from time to time, certain anti-gaming groups have challenged constitutional amendments or legislation that would limit our ability to continue to operate in those jurisdictions in which these constitutional amendments or legislation have been adopted.

*Taxation and fees.* State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

***Our business may be adversely affected by legislation prohibiting tobacco smoking.***

Legislation in various forms to ban indoor tobacco s