

ISLE OF CAPRI CASINOS INC
Form 10-Q
December 01, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 24, 2004

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.

Delaware

41-1659606

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification Number)

1641 Popps Ferry Road, Biloxi,
Mississippi

39532

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(228) 396-7000

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 if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

As of November 30, 2004 the Company had a total of 29,667,732 shares of Common Stock outstanding (which excludes 3,614,700 shares held by us in treasury).

ISLE OF CAPRI CASINOS, INC.
FORM 10-Q
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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical or current facts included in this report on Form 10-Q or incorporated by reference herein, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Our Internet website is <http://www.islecorp.com>. We make our filings available free of charge on our Internet website as soon as reasonably practical after we electronically file such reports with, or furnish them to, the SEC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ISLE OF CAPRI CASINOS, INC. CONSOLIDATED BALANCE SHEETS (In thousands, except per share data)

<u>ASSETS</u>	October 24, 2004 (Unaudited)	April 25, 2004
Current assets:		
Cash and cash equivalents	\$ 128,973	\$ 134,582
Accounts receivable, net	9,891	10,427
Income tax receivable	-	2,860
Deferred income taxes	11,147	11,283
Prepaid expenses and other assets	23,128	16,169
Total current assets	173,139	175,321
Property and equipment, net	945,337	907,460
Other assets:		
Goodwill	336,019	333,780
Other intangible assets	72,358	72,349
Deferred financing costs, net	21,595	23,340
Restricted cash	2,193	2,482
Prepaid deposits and other	8,087	9,303
Total assets	\$ 1,558,728	\$ 1,524,035

<u>LIABILITIES AND STOCKHOLDERS'</u>			
<u>EQUITY</u>			
Current liabilities:			
Current maturities of long-term debt	\$	7,852	\$ 8,040
Accounts payable trade		29,120	21,725
Accrued liabilities:			
Interest		9,853	10,311
Payroll and related		44,917	45,588
Property and other taxes		23,892	17,167
Income taxes		6,463	-
Progressive jackpots and slot club awards		16,890	14,828
Other		26,647	21,856
Total current liabilities		165,634	139,515
Long-term debt, less current maturities		1,079,060	1,080,824
Deferred income taxes		21,787	21,825
Deferred state income taxes		8,191	8,191
Other accrued liabilities		12,738	12,091
Minority interest		23,217	20,183
Stockholders' equity:			
Preferred stock, \$.01 par value; 2,000 shares authorized; none issued		-	-
Common stock, \$.01 par value; 45,000 shares authorized; shares issued and outstanding: 33,189 at October 24, 2004 and 33,055 at April 25, 2004		332	330
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued		-	-
Additional paid-in capital		143,945	143,385
Unearned compensation		(1,984)	(1,413)
Retained earnings		139,152	128,095
Accumulated other comprehensive income		1,089	521
		282,534	270,918
Treasury stock, 3,615 shares at October 24, 2004 and 3,338 shares at April 25, 2004		(34,433)	(29,512)
Total stockholders' equity		248,101	241,406
Total liabilities and stockholders' equity	\$	1,558,728	\$ 1,524,035

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(In thousands, except per share data)

Three Months Ended		Six Months Ended	
October 24,	October 26,	October 24,	October 26,

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	2004	2003	2004	2003
Revenues:				
Casino	\$ 275,492	\$ 275,527	\$ 559,687	\$ 564,310
Rooms	12,334	11,209	25,259	23,069
Pari-mutuel commissions and fees	3,362	3,032	7,801	7,750
Food, beverage and other	36,755	35,011	73,436	72,668
Gross revenues	327,943	324,779	666,183	667,797
Less promotional allowances	58,221	55,113	115,589	112,380
Net revenues	269,722	269,666	550,594	555,417
Operating expenses:				
Casino	47,138	44,625	92,800	91,000
Gaming taxes	61,976	60,337	124,920	122,556
Rooms	2,598	2,523	5,436	5,095
Pari-mutuel	2,749	2,361	6,219	5,842
Food, beverage and other	8,932	7,461	18,278	16,032
Marine and facilities	16,256	16,953	33,387	33,033
Marketing and administrative	81,111	77,519	160,040	156,280
Preopening	192	307	247	598
Depreciation and amortization	25,834	21,437	49,457	43,054
Total operating expenses	246,786	233,523	490,784	473,490
Operating income	22,936	36,143	59,810	81,927
Interest expense, net	(18,951)	(20,642)	(36,351)	(41,740)
Minority interest	(1,549)	(2,657)	(3,682)	(5,490)
Income before income taxes	2,436	12,844	19,777	34,697
Income taxes	1,988	2,134	8,720	10,435
Net income	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Net income per common share-basic	\$ 0.02	\$ 0.37	\$ 0.37	\$ 0.83
Net income per common share-diluted	\$ 0.01	\$ 0.35	\$ 0.36	\$ 0.79
Weighted average basic shares	29,532	29,336	29,610	29,241
Weighted average diluted shares	30,542	30,827	30,646	30,591

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)
(In thousands)

**Accumulated
Other**

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compen- sation	Retained Earnings	Compre- hensive Income	Treasury Stock	Total Stockholders' Equity
Balance, April 25, 2004	33,055	\$ 330	\$ 143,385	\$ (1,413)	\$ 128,095	\$ 521	\$ (29,512)	\$ 241,406
Net income	-	-	-	-	11,057	-	-	11,057
Unrealized gain on interest rate swap contracts	-	-	-	-	-	160	-	160
Foreign currency translation adjustments	-	-	-	-	-	408	-	408
Comprehensive income, net of income taxes	-	-	-	-	-	-	-	11,625
Exercise of stock options, including tax benefit of \$211	134	2	(339)	-	-	-	1439	1102
Purchase of treasury stock	-	-	-	-	-	-	(6,360)	(6,360)
Grant of nonvested stock	-	-	899	(899)	-	-	-	-
Amortization of unearned compensation	-	-	-	328	-	-	-	328
Balance, October 24, 2004	33,189	\$ 332	\$ 143,945	\$ (1,984)	\$ 139,152	\$ 1,089	\$ (34,433)	\$ 248,101

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

Six Months Ended
October 24, **October 26,**
2004 **2003**

Operating activities:

Net income	\$	11,057	\$	24,262
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		49,457		43,054
Amortization of deferred financing costs		2,028		2,151
Amortization of unearned compensation		328		373
Minority interest		3,682		5,490
Changes in operating assets and liabilities:				
Accounts receivable		519		(1,086)
Income tax payable		9,535		-
Prepaid expenses and other assets		(5,763)		(5,634)
Accounts payable and accrued liabilities		15,060		21,273
Net cash provided by operating activities		85,903		89,883

Investing activities:

Purchases of property and equipment, net		(80,156)		(68,646)
Notes receivable		(1,023)		-
Net cash paid for acquisitions		-		(948)
Proceeds from sales of assets		-		250
Restricted cash		(70)		(45)
Other		(172)		2,964
Net cash used in investing activities		(81,421)		(66,425)

Financing activities:

Proceeds from debt		1,153		-
Net increase (reduction) in line of credit		1,634		(5,916)
Principal payments on debt		(4,851)		(8,342)
Deferred financing costs		(280)		(366)
Purchase of treasury stock		(6,360)		-
Proceeds from exercise of stock options		891		3,276
Cash distributions to minority partner		(2,309)		(1,146)
Net cash used in financing activities		(10,122)		(12,494)

Effect of foreign currency exchange rates on cash

		31		-
Net increase in cash and cash equivalents		(5,609)		10,964
Cash and cash equivalents at beginning of period		134,582		94,626
Cash and cash equivalents at end of period	\$	128,973	\$	105,590

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(UNAUDITED)
(In thousands)

Six Months Ended
October 24, October 26,
2004 2003

Supplemental disclosure of cash flow information:

Net cash (receipts) payments for:

Interest	\$	36,323	\$	40,769
Income taxes		(814)		2,394

Supplemental schedule of noncash investing and financing activities:

Other:

Construction costs funded through accounts payable and accrued liabilities		6,115		2,682
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See notes to the unaudited consolidated financial statements.

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ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

Isle of Capri Casinos, Inc. (the "Company" or "Isle of Capri") was incorporated as a Delaware corporation on February 14, 1990. The Company, through its subsidiaries, is engaged in the business of developing, owning and operating branded gaming facilities and related lodging and entertainment facilities in growing markets in the United States and internationally. The Company wholly owns and operates twelve casinos in eleven locations in the United States, located in Lula, Biloxi, Vicksburg and Natchez, Mississippi; Lake Charles and Bossier City, Louisiana; Kansas City and Boonville, Missouri; and Bettendorf, Davenport and Marquette, Iowa. The Company also owns a 57% interest in, and receives a management fee for operating, two gaming facilities in Black Hawk, Colorado, and a gaming facility in Cripple Creek, Colorado. All but three of these gaming facilities operate under the name "Isle of Capri" and feature our distinctive tropical island theme. The Company's international gaming interests include a wholly owned casino in Freeport, Grand Bahama, and a two-thirds ownership interest in Blue Chip Casinos, PLC ("Blue Chip"), which owns casinos in Dudley, Wolverhampton and Walsall, England. The Blue Chip investment was made in November 2003 and the allocation of the purchase price is preliminary. The Company also wholly owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida.

Fiscal Year-End

The Company's fiscal year ends on the last Sunday in April. This fiscal year creates more comparability of the Company's quarterly operations, by generally having an equal number of weeks (13) and week-end days (26) in each quarter. Periodically, this system necessitates a 53-week year. Fiscal 2005 commenced on April 26, 2004 and ends on April 24, 2005.

Interim Financial Information

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. During the current quarter, these adjustments include additional depreciation expense of \$2.9 million related to the reclassification of certain land improvements that were improperly classified as land at the time of the conversion of the Company's manual system to a computerized asset tracking system in fiscal 2002. This adjustment is not material to previous fiscal years, nor is it expected to be material to anticipated results or to the trend of earnings for the full fiscal year and accordingly, the Company has included the correction in the period identified. Operating results for the three and six months ended October 24, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending April 24, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended April 25, 2004.

Reclassification

The consolidated financial statements for the prior year reflect certain reclassifications to conform to the current year presentation.

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ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Stock-Based Compensation

The Company applies the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for the Company's three stock-based employee compensation plans. No stock-based employee compensation expense is reflected in net income as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), to stock-based employee compensation.

Three Months Ended		Six Months Ended	
October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003

(In thousands, except per share data)

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Net income, as reported	\$	448	\$	10,710	\$	11,057	\$	24,262
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(516)		(1,163)		(1,780)		(1,877)
Pro forma net income	\$	(68)	\$	9,547	\$	9,277	\$	22,385
Earnings per common share:								
Basic - as reported	\$	0.02	\$	0.37	\$	0.37	\$	0.83
Basic - pro forma	\$	-	\$	0.33	\$	0.31	\$	0.77
Diluted - as reported	\$	0.01	\$	0.35	\$	0.36	\$	0.79
Diluted - pro forma	\$	-	\$	0.31	\$	0.30	\$	0.73

The stock-based compensation included in the table above represents the after-tax amount of pro forma compensation related to stock option plans. Reported net income includes amortization of restricted stock compensation of \$62,000 and \$117,000, net of income taxes, for the three months ended October 24, 2004, and October 26, 2003, respectively, and \$188,000 and \$234,000, net of income taxes, for the six months ended October 24, 2004, and October 26, 2003, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fiscal Quarter	Risk-Free Interest Rate	Original Expected Life	Expected Volatility	Expected Dividends
October 24, 2004	3.97%	6.38 years	55.5%	None
October 26, 2003	3.02%	6.05 years	57.8%	None

3. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill are as follows (in thousands):

Balance at April 25, 2004	\$ 333,780
Reclassification of goodwill	2,020
Foreign currency translation	219
Balance at October 24, 2004	\$ 336,019

On November 28, 2003, the Isle of Capri Casinos, Inc., through its wholly owned subsidiary, Isle of Capri Casinos, Ltd. (collectively, the "Isle") acquired a two-thirds interest in Blue Chip for £5.3 million (approximately \$9.0 million, based on published exchange rates at the date of acquisition). The Company has preliminarily recorded \$2.0 million in goodwill related to the purchase. The allocation is preliminary pending receipt of further documentation.

4. Long-Term Debt

	October 24, 2004	April 25, 2004
	(In thousands)	
Long-term debt consists of the following:		
7% Senior Subordinated Notes (described below)	\$ 500,000	\$ 500,000
9% Senior Subordinated Notes (described below)	200,000	200,000
Senior Secured Credit Facility (described below):		
Variable rate term loan	206,250	207,500
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below):		
Variable rate term loan Tranche C	164,175	165,000
Special Assessment BID Bonds (described below)	645	700
Variable rate TIF Bonds due to City of Bettendorf (described below)	4,258	4,624
Variable rate General Obligation Bonds due to City of Davenport (described below)	1,830	1,830
12.5% note payable, due in monthly installments of \$125, including interest, beginning October 1997 through October 2005	1,181	1,833
Blue Chip Credit Facility (6.50% at October 24, 2004) due December 2008; non-recourse to Isle of Capri Casinos, Inc.	3,884	3,418
Other	4,689	3,959
	1,086,912	1,088,864
Less current maturities	7,852	8,040
Long-term debt	\$ 1,079,060	\$ 1,080,824

4. Long-Term Debt (continued)

The following is a brief description of the Company's and its subsidiaries' borrowing arrangements. Certain of these arrangements contain financial covenants. The Company and its subsidiaries were in compliance with all covenants as of October 24, 2004 and April 25, 2004.

7% Senior Subordinated Notes

On March 3, 2004, the Company issued \$500.0 million of 7% Senior Subordinated Notes due 2014. The 7% Senior Subordinated Notes are guaranteed by all of the Company's significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk, the Colorado Central Station-Black Hawk and the Colorado Grande-Cripple Creek, and other subsidiaries as described more fully in Note 9. The 7% Senior Subordinated Notes are general unsecured obligations and rank junior to all existing and future senior indebtedness, senior to any subordinated indebtedness and equally with all existing and future senior subordinated debt, including the \$200.0 million in aggregate principal amount of the existing 9% Senior Subordinated Notes. Interest on the 7% Senior Subordinated Notes is payable semi-annually on each March 1 and September 1 through maturity. The 7% Senior Subordinated Notes are redeemable, in whole or in part, at the Company's option at any time on or after March 1, 2009 at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period beginning on March 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2009	103.500%
2010	102.333%
2011	101.167%
2012 and thereafter	100.000%

The Company issued the 7% Senior Subordinated Notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries' stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt (continued)**9% Senior Subordinated Notes**

On March 27, 2002, the Company issued \$200.0 million of 9% Senior Subordinated Notes due 2012 (the "9% Senior Subordinated Notes"). The 9% Senior Subordinated Notes are guaranteed by all of the Company's significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk, the Colorado Central Station-Black Hawk and the Colorado Grande-Cripple Creek, and other subsidiaries as described more fully in Note 9. The 9% Senior Subordinated Notes are general unsecured obligations and rank junior to all existing and future senior indebtedness, senior to any subordinated indebtedness and equally with all existing and future senior subordinated debt, including the \$500.0 million in aggregate principal amount of the existing 7% Senior Subordinated Notes. Interest on the 9% Senior Subordinated Notes is payable semi-annually on each March 15 and September 15 through maturity. The 9% Senior Subordinated Notes are redeemable, in whole or in part, at the Company's option at any time on or after March 15, 2007 at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period beginning on March 15 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2007	104.500%
2008	103.000%
2009	101.500%
2010 and thereafter	100.000%

Additionally, the Company may redeem a portion of the 9% Senior Subordinated Notes with the proceeds of specified equity offerings.

The Company issued the 9% Senior Subordinated Notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries' stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt (continued)

Senior Secured Credit Facility

The Senior Secured Credit Facility provides for a \$250.0 million revolving credit facility maturing on April 25, 2007 and a \$250.0 million term loan facility maturing on April 25, 2008. At the Company's option, the revolving credit facility may bear interest at (1) the higher of 0.05% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 1.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 2.75%. The term loan may bear interest at the Company's option at (1) the higher of 0.05% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 1.50% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 2.50%.

The Senior Secured Credit Facility provides for certain covenants, including those of a financial nature. The Senior Secured Credit Facility is secured by liens on substantially all of the Company's assets and guaranteed by all of its significant restricted subsidiaries, excluding Casino America of Colorado, Inc., the Isle-Black Hawk, the Colorado Central Station-Black Hawk, the Colorado Grande-Cripple Creek and their subsidiaries, and other subsidiaries as described more fully in Note 9. Effective November 23, 2004, the Company amended certain financial covenants in its Senior Secured Credit Facility. Specifically, Consolidated Total Leverage Ratio levels were increased and Fixed Charge Coverage Ratio levels were decreased for the second fiscal quarter of fiscal year 2005 through the second fiscal quarter of fiscal year 2006, as described in the Amendment, and the maximum amount allowed for Consolidated Capital Expenditures is increased from \$40.0 million to \$50.0 million.

The weighted average effective interest rate of total debt outstanding under the Senior Secured Credit Facility at October 24, 2004 was 4.12%.

Isle-Black Hawk Senior Secured Credit Facility

The Isle-Black Hawk Senior Secured Credit Facility provides for a \$40.0 million revolving credit facility maturing on December 31, 2006 or such date as the Tranche C term loans are repaid in full, whichever comes first and \$165.0 million Tranche C term loan matures on December 31, 2007, each of which is non recourse to the Isle of Capri Casinos, Inc. The Isle-Black Hawk is required to make quarterly principal payments of \$0.4 million on the term loan portions of the Senior Secured Credit Facility that commenced in June 2004, with a balloon payment of \$159.2 million due upon maturity.

At the Isle-Black Hawk's option, the revolving credit facility loan may bear interest at (1) the highest of 0.05% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 2.50% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 3.50%. The Tranche C term loan may bear interest at (1) the highest of 0.05% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 2.00% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 3.00%.

The Senior Secured Credit Facility provides for certain covenants, including those of a financial nature. The Isle-Black Hawk amended certain of these financial covenants as of July 25, 2004. The Isle-Black Hawk was in compliance with all of the covenants as of October 24, 2004, and anticipates being in compliance with the amended covenants in the future. The Senior Secured Credit Facility is secured by liens on the Isle-Black Hawk's assets.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt (continued)

The weighted average effective interest rate of total debt outstanding under the Isle-Black Hawk Senior Secured Credit Facility at October 24, 2004 was 5.25%.

Interest Rate Swap Agreements

The Isle-Black Hawk has interest rate swap agreements with an aggregate notional value of \$80.0 million or 48.7% of its variable rate term debt outstanding under the Isle-Black Hawk's Senior Secured Credit Facility as of October 24,

2004. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until the first fiscal quarter of 2006, thus reducing the impact of interest rate changes on future interest expense. The interest rate swap agreements terminate as follows: \$40.0 million in fiscal 2005 and \$40.0 million in fiscal 2006. We evaluate the effectiveness of these hedged transactions on a quarterly basis. We found no portion of the hedging instruments to be ineffective during the quarter ended October 24, 2004. Accordingly, no gains or losses have been recognized on these cash flow hedges.

At October 24, 2004, the Isle-Black Hawk does not expect to reclassify any net gains or losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to the payment of variable interest associated with the floating rate debt.

Isle-Black Hawk Special Assessment BID Bonds

In July 1998, the Black Hawk Business Improvement District (the "BID"), issued \$2.9 million in 6% bonds due on December 1, 2009. The proceeds from the sale of the bonds were used to fund road and utility improvements in the Special Improvement District 1997-1 (the "SID"), of which the Isle-Black Hawk is a member. The total costs of the improvements amounted to \$2.2 million with the excess proceeds being returned to the bondholders by the BID. The Isle-Black Hawk is responsible for 50% of this amount plus interest, and in April 2000 made the first of twenty semi-annual payments of \$0.1 million in the form of special property tax assessments levied on the improvement project. This amount is calculated by amortizing \$1.1 million or 50% of the net bond proceeds, over twenty periods at an interest rate of 6.25%. The difference between the bond rate of 6% and the 6.25% assessed is to cover administrative costs of the BID related to the issuance.

Isle-Bettendorf TIF Bonds

As part of the City of Bettendorf Development Agreement dated June 17, 1997, the City of Bettendorf ("the City") issued \$9.5 million in tax incremental financing bonds ("TIF Bonds"), \$7.5 million of which was used by the Isle-Bettendorf to construct an overpass, parking garage, related site improvements and pay for disruption damages caused by construction of the overpass. To enable financing of the City's obligations, the Isle-Bettendorf will pay incremental property taxes on the developed property assessed at a valuation of not less than \$32.0 million until the TIF Bonds mature. Additionally, the TIF Bonds will also be repaid from the incremental taxes on the developed property within the defined "TIF District," which includes the Isle-Bettendorf and over 100 other tax paying entities. As the TIF District will repay the TIF Bonds, the Isle-Bettendorf may not be required to fully repay the \$7.5 million. In the event that the taxes generated by the project and other qualifying developments in the redevelopment district do not fund the repayment of the total TIF Bonds prior to their scheduled maturity, the Isle-Bettendorf will pay the City \$0.25 per person for each person entering the boat until the remaining balance has been repaid.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt (continued)

Isle-Davenport General Obligation Bonds

In 2002, the Isle-Davenport entered into an agreement with the City of Davenport (the "City") whereby the City would construct and own a skybridge connecting to the Isle-Davenport's facility, allowing safer access across the street and railroad tracks. The project is expected to cost \$6.4 million, with the Isle-Davenport obligated to pay \$1.8 million. In February 2004, the City issued \$1.8 million in ten-year general obligation tax-exempt bonds at an average interest rate

of 3.1%. The Isle-Davenport is required to make the first payment, consisting solely of accrued interest, of approximately \$0.04 million, on or before December 1, 2004. Thereafter, the Isle-Davenport is required to make annual payments of principal and interest, to the City, to retire the bonds. As of October 24, 2004, no payments had been made to the City, but the obligation has been recorded as a liability of the Isle-Davenport.

Lines of Credit

As of October 24, 2004, the Company had \$294.9 million of capacity under its lines of credit, of which \$271.0 million was available.

5. Comprehensive Income

Comprehensive income consists of the following:

	Three Months Ended		Six Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
	(In thousands)			
Net income	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Unrealized (loss) gain on interest rate swaps	(12)	1,021	160	1,985
Foreign currency translation adjustment	(73)	362	408	362
Comprehensive income	\$ 363	\$ 12,093	\$ 11,625	\$ 26,609

For the interest rate swap agreements, the fair value of the estimated interest differential between the applicable future variable rates and the interest rate swap agreement contracts, expressed in present value terms, totaled \$0.1 million, net of income taxes, and is recorded as a current liability. There was no effect on income related to hedge ineffectiveness.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Contingencies

In April 1994, one of the Company's subsidiaries was named, along with numerous manufacturers, distributors and gaming operators, including many of the country's largest gaming operators, in a consolidated class action lawsuit that is currently pending in Las Vegas, Nevada. These gaming industry defendants are alleged to have violated the Racketeer Influenced and Corrupt Organizations Act by engaging in a course of fraudulent and misleading conduct intended to induce people to play their gaming machines based upon a false belief concerning how those gaming machines actually operate and the extent to which there is actually an opportunity to win on any given play. The suit seeks unspecified compensatory and punitive damages. In June 2002, the district court denied the Motion for Class Certification. This decision was appealed to the United States District Court for the Ninth Circuit. On August 10,

2004, the Ninth Circuit denied the appeal upholding the lower court's decision denying the petition for class certification. As a result, the plaintiffs will only be permitted to pursue their claims individually. The gaming industry defendants are committed to continuing a vigorous defense of all claims asserted in this matter; however, given these developments, the Company believes that the outcome will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

In August 1997, a lawsuit was filed that seeks to nullify a contract to which Louisiana Riverboat Gaming Partnership is a party. Pursuant to the contract, Louisiana Riverboat Gaming Partnership pays a fixed amount plus a percentage of revenues to various local governmental entities, including the City of Bossier and the Bossier Parish School Board, in lieu of payment of a per-passenger boarding fee. The case was tried on April 6, 2004. The trial court rendered a ruling in favor of the defendants, finding that, although the legislature amended the boarding fee statute in 2003 so as to prohibit future boarding fee agreements, any pre-existing agreement between a riverboat and either the City of Bossier City or the Bossier Parish Police Jury will remain valid and in effect until its expiration. Louisiana Riverboat Gaming Partnership's contract expired on April 4, 2004. Therefore, Louisiana Riverboat Gaming Partnership now pays a boarding fee to the City as outlined by the statute. Louisiana Riverboat Gaming Partnership still has an existing contract with the Bossier Parish Police Jury, which was not at issue in the litigation, and which will remain in effect until its expiration on January 1, 2007, unless extended by the parties. The plaintiffs have appealed the trial court's ruling to the Second Circuit Court of Appeal. The Company will continue to vigorously defend this matter as may be required.

Lady Luck Gaming Corporation (now a wholly owned subsidiary of the Company) and several joint venture partners are defendants in a lawsuit brought by the country of Greece through its Minister of Tourism (now Development) and Finance. The action alleges that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. The payment the Company is alleged to have been required to make aggregates approximately 6.5 million Euros (which was approximately \$8.2 million as of October 24, 2004, based on published exchange rates). Although it is difficult to determine the damages being sought from the lawsuit, the action may seek damages up to that aggregate amount plus interest from the date of the action. The Athens Civil Court of First Instance granted judgment in the Company's favor and dismissed the lawsuit, but the Ministry appealed the matter and the appeal was heard before the Athens Appeal Court of First Instance. The Athens Appeal Court issued certified copies of judgments denying the Ministry's appeal. The Ministry elected to appeal this matter further to the Supreme Court. The Company has taken action to have this matter set for a hearing before the Supreme Court and it is currently set for hearing during May 2006. The outcome of this matter is still in doubt and cannot be predicted with any degree of certainty. The Company intends to continue a vigorous and appropriate defense to the claims asserted in this matter.

ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Contingencies (continued)

On December 30, 2002, the County of Jefferson, Missouri initiated a lawsuit in the Circuit Court of Jefferson County, Missouri against the Company and a subsidiary alleging a breach of a 1993 contract entered into by the County and that subsidiary, and guaranteed by Lady Luck Gaming Corporation, relating to the development of a casino site near Kimmswick, Missouri. The suit alleges damages in excess of \$10.0 million. Discovery is ongoing and the matter has been set for a trial during April 2005. The outcome of this matter cannot be predicted with any degree of certainty. The Company believes the claims against it to be without merit and intends to vigorously and appropriately defend the

claims asserted in this matter.

In March 2004, the Company was selected by the Illinois Gaming Board as the successful bidder in a federal bankruptcy court auction for the 10th Illinois gaming license. Because Illinois limits the number of gaming licenses, each license has intrinsic value. Therefore, this license would be considered an intangible asset. As such, the cost of the license, as well as costs to acquire the license, are capitalized. As of October 24, 2004, the Company has capitalized \$2.2 million related to acquisition of this license. Implementation of the project has been delayed due to various factors, including the lack of a quorum on the Illinois Gaming Board and various administrative and legal proceedings. Should the Company not ultimately obtain the license, and complete the project, all such costs would be expensed.

On October 29, 2004, the Company loaned \$5 million to Florida Gaming Corporation ("Florida Gaming"). Interest accrues on the unpaid principal balance of the loan at an annual rate of 6% and is paid in arrears on the first day of each fiscal quarter. The loan is secured by a pledge of all of the issued and outstanding shares of capital stock of Florida Gaming Centers, Inc. ("FGC"), a wholly owned subsidiary of Florida Gaming. The entire unpaid principal amount of the loan and unpaid interest thereon is payable on the earlier of (1) the sale of all or any material portion of the assets of, or all or any substantial equity interest in FGC, or (2) December 31, 2008.

Concurrently with the loan, Florida Gaming and FGC entered into a letter agreement with the Company pursuant to which Florida Gaming and FGC gave the Company exclusive negotiating rights with respect to the acquisition of all or substantially all of FGC's Miami jai alai business for a period ending no later than December 31, 2008.

On November 2, 2004, voters in the State of Florida voted to amend the state's constitution to allow the voters of Miami-Dade and Broward counties to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. In the event such amendment leads to a vote in Broward county and those voters grant that approval and enabling legislation is enacted allowing slot machines at the Company's Pompano Park facility, it intends to proceed with the development of a slot machine facility at that location. In addition, the Company may exercise its exclusive right to negotiate with Florida Gaming for the purchase of FGC's Miami jai alai business. For a variety of reasons, there can be no assurance that Florida law will ultimately allow the operation of slot machines at racetracks or jai alai facilities in Miami-Dade and Broward counties, including Pompano Park, or that the Company will reach a mutually satisfactory agreement with regard to the purchase of FGC's Miami jai alai business.

The Company is subject to certain federal, state and local environmental protection, health and safety laws, regulations and ordinances that apply to businesses generally, and is subject to cleanup requirements at certain of its facilities as a result thereof. The Company has not made, and does not anticipate making, material expenditures, nor does it anticipate incurring delays with respect to environmental remediation or protection. However, in part because the Company's present and future development sites have, in some cases, been used as manufacturing facilities or other facilities that generate materials that are required to be remediated under environmental laws and regulations, there can be no guarantee that additional pre-existing conditions will not be discovered and that the Company will not experience material liabilities or delays.

The Company is subject to various contingencies and litigation matters and has a number of unresolved claims. Although the ultimate liability of these contingencies, this litigation and these claims cannot be determined at this time, the Company believes that they will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

7. Earnings per Share of Common Stock

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
(In thousands, except per share data)				
Numerator:				
Net income	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Numerator for basic earnings per share - income				
available to common stockholders	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Effect of diluted securities	-	-	-	-
Numerator for diluted earnings per share-				
income available to common stockholders after				
assumed conversions	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Denominator:				
Denominator for basic earnings per share -				
weighted - average shares	29,532	29,336	29,610	29,241
Effect of dilutive securities				
Employee stock options and nonvested restricted stock	1,010	1,491	1,036	1,350
Denominator for diluted earnings per share -				
adjusted weighted - average shares and				
assumed conversions	30,542	30,827	30,646	30,591
Basic earnings per share	\$ 0.02	\$ 0.37	\$ 0.37	\$ 0.83
Diluted earnings per share	\$ 0.01	\$ 0.35	\$ 0.36	\$ 0.79

ISLE OF CAPRI CASINOS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes

The Company's effective tax rate for the three and six months ended October 24, 2004 was 66.3% and 42.9%, respectively. These rates reflect a change in the Company's estimated annual effective income tax rate, due to the effect of non-deductible permanent items on lower earnings for the year and the impact of not benefiting current operating losses of the Company's interests in the United Kingdom. The effect of the change in the annual effective income tax rate for the three months ended October 24, 2004, reduced net income by \$1.3 million, or \$0.04 per diluted common share. During the second quarter of the previous fiscal year, the Internal Revenue Service concluded a federal tax examination covering four tax years without significant adjustments and provided administrative guidance on certain other tax matters for other open years. As a result, the Company reduced income tax expense and related accruals by approximately \$3.0 million for the three and six months ended October 26, 2003, for previously accrued income tax liabilities. This had the effect of reducing our effective tax rate to 16.9% and 30.3% for the three and six months ended October 26, 2003, respectively, excluding an unrelated party's portion of the Colorado Central Station-Black Hawk's and the Colorado Grande-Cripple Creek's income taxes. Excluding the impact of these developments, our fiscal 2004 effective tax rate for the six months ended October 26, 2003, would have been 37.3%, excluding an unrelated party's portion of the Colorado Central Station-Black Hawk's and the Colorado Grande-Cripple Creek's income taxes.

The calculation of our effective tax rate for the three and six months ended October 24, 2004 and October 26, 2003 is as follows:

	Three Months Ended		Six Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
	(In thousands, except percentages)			
Pre-tax income from consolidated statement of income	\$ 2,436	\$ 12,844	\$ 19,777	\$ 34,697
Add (Deduct):				
Minority interest income tax benefit (expense)	561	(201)	561	(274)
Income before income taxes	2,997	12,643	20,338	34,423
Income tax expense	1,988	2,134	8,720	10,435
Effective income tax rate	66.3%	16.9%	42.9%	30.3%

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Consolidating Condensed Financial Information

Certain of the Company's subsidiaries have fully and unconditionally guaranteed the payment of all obligations under the Company's \$200.0 million 9% Senior Subordinated Notes due 2012, \$500.0 million 7% Senior Subordinated Notes due 2014 and \$500.0 million Senior Secured Credit Facility. The following tables present the consolidating condensed financial information of the parent company, guarantor subsidiaries and non-guarantor subsidiaries of the Isle of Capri Casinos, Inc., balance sheets as of October 24, 2004, and April 25, 2004 and statements of income and cash flows for the six months ended October 24, 2004, and October 26, 2003.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATING CONDENSED GUARANTOR SUBSIDIARIES, NON-GUARANTOR SUBSIDIARIES,
AND PARENT COMPANY FINANCIAL INFORMATION
AS OF OCTOBER 24, 2004 AND APRIL 25, 2004 AND FOR
THE THREE AND SIX MONTHS ENDED OCTOBER 24, 2004 AND OCTOBER 26, 2003
UNAUDITED
(In thousands)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
As of October 24, 2004					
Balance Sheet					
Current assets	\$ 41,703	\$ 104,870	\$ 49,294	\$ (22,728)	\$ 173,139
Intercompany receivables	916,380	(246,665)	66,368	(736,083)	-
Investments in subsidiaries	212,494	259,511	4,003	(476,008)	-
Property and equipment, net	4,407	731,102	209,828	-	945,337
Other assets	18,492	370,450	55,810	(4,500)	440,252
Total assets	\$ 1,193,476	\$ 1,219,268	\$ 385,303	\$ (1,239,319)	\$ 1,558,728
Current liabilities	\$ 36,430	\$ 93,278	\$ 58,654	\$ (22,728)	\$ 165,634
Intercompany payables	14,900	620,320	100,863	(736,083)	-
Long-term debt,					
less current maturities	903,749	8,274	167,037	-	1,079,060
Other accrued liabilities	(8,658)	63,488	(12,114)	-	42,716
Minority interest	-	-	-	23,217	