

ISLE OF CAPRI CASINOS INC  
Form 10-Q  
September 02, 2005

---

**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 July 24, 2005

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.**

---

Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>41-1659606</b> (I.R.S. Employer Identification Number)
<b>1641 Poppo Ferry Road, Biloxi, Mississippi</b> (Address of principal executive offices)	<b>39532</b> (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

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

As of August 17, 2005 the Company had a total of 30,013,462 shares of Common Stock outstanding (which excludes 3,541,427 shares held by us in treasury).

---

ISLE OF CAPRI CASINOS, INC.

FORM 10-Q

INDEX

	<u>PAGE</u>
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	
<u>CONSOLIDATED BALANCE SHEETS, JULY 24, 2005 (UNAUDITED) AND APRIL 24, 2005</u>	2
<u>CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED JULY 24, 2005 AND JULY 25, 2004 (UNAUDITED)</u>	3
<u>CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE THREE MONTHS ENDED JULY 24, 2005 (UNAUDITED)</u>	4
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED JULY 24, 2005 AND JULY 25, 2004 (UNAUDITED)</u>	5
<u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	26
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	39
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	40
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	41
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	41
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	41
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	41
ITEM 5. <u>OTHER INFORMATION</u>	41
ITEM 6. <u>EXHIBITS</u>	41
<u>SIGNATURE</u>	42
EXHIBITS	43

**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.

Important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from our expectations, are further discussed in the Section Risk Factors in our annual report on Form 10-K for the fiscal year ended April 24, 2005, as such factors may be updated in subsequent SEC filings. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

the effect of significant competition from other gaming operations in the markets in which we operate;

the effects of changes in gaming authority regulations;

the effects of increases in gaming taxes;

the effects of changes in non-gaming regulation;

loss of key personnel;

the impact of inclement weather on our patronage;

the success and timing of reconstruction in Biloxi, Mississippi following the effects of Hurricane Katrina;

the effects of construction and related disruptions associated with expansion projects at existing facilities;

the effects of increases in energy and fuel prices;

general and regional economic conditions;

the effects of limitations imposed by our substantial indebtedness; and

political conditions and regulatory uncertainties in the foreign countries in which we operate or are pursuing development opportunities.

## Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

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.

**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****ISLE OF CAPRI CASINOS, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****(In thousands, except per share data)**

	<b>July 24,</b>	<b>April 24,</b>
	<b>2005</b>	<b>2005</b>
	<u>          </u>	<u>          </u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 116,326	\$ 146,743
Marketable securities	16,134	16,016
Accounts receivable, net	14,945	15,460
Deferred income taxes	8,680	8,607
Deferred state income taxes	988	988
Prepaid expenses and other assets	23,716	16,634
	<u>          </u>	<u>          </u>
Total current assets	180,789	204,448
Property and equipment, net	1,063,526	1,026,906
Other assets:		
Goodwill	336,678	340,409
Other intangible assets	92,203	72,364
Deferred financing costs, net	18,653	19,461
Restricted cash	2,208	2,193
Prepaid deposits and other	27,340	15,665
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,721,397</u>	<u>\$ 1,681,446</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Current maturities of long-term debt	\$ 7,166	\$ 7,501
Accounts payable	38,325	42,456
Accrued liabilities:		
Interest	24,066	10,312
Payroll and related	46,594	47,806
Property and other taxes	23,649	21,061
Income taxes	5,530	1,160
Progressive jackpots and slot club awards	15,161	15,045
Other	38,849	34,321
	<u>          </u>	<u>          </u>
Total current liabilities	199,340	179,662
Long-term debt, less current maturities	1,157,005	1,148,617
Deferred income taxes	40,050	42,102

Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

Deferred state income taxes	9,329	9,329
Other accrued liabilities	29,384	17,115
Minority interest	24,605	23,225
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: 33,540 at July 24, 2005 and 33,528 at April 24, 2005	335	335
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued		
Additional paid-in capital	148,075	148,177
Unearned compensation	(1,984)	(1,488)
Retained earnings	150,117	146,133
Accumulated other comprehensive income	(1,113)	2,858
	<u>295,430</u>	<u>296,015</u>
Treasury stock, 3,541 shares at July 24, 2005 and 3,607 shares at April 24, 2005	(33,746)	(34,619)
	<u>261,684</u>	<u>261,396</u>
Total liabilities and stockholders' equity	\$ 1,721,397	\$ 1,681,446

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	
	July 24, 2005	July 25, 2004
Revenues:		
Casino	\$ 283,851	\$ 282,080
Rooms	14,300	12,903
Pari-mutuel commissions and fees	5,172	4,439
Food, beverage and other	38,570	36,192
Gross revenues	341,893	335,614
Less promotional allowances	60,359	56,893
Net revenues	281,534	278,721
Operating expenses:		
Casino	46,980	45,180
Gaming taxes	62,771	62,760
Rooms	3,017	2,828
Pari-mutuel	3,916	3,470
Food, beverage and other	9,140	9,093
Marine and facilities	16,840	17,076
Marketing and administrative	85,371	78,331
Depreciation and amortization	25,269	23,522
Total operating expenses	253,304	242,260
Operating income	28,230	36,461
Interest expense	(20,210)	(17,771)
Interest income	1,074	376
Minority interest	(2,056)	(2,133)
Income from continuing operations before income taxes	7,038	16,933
Income taxes	2,996	6,686
Income from continuing operations	4,042	10,247
Income (loss) from discontinued operations, net of income taxes	(58)	362
Net income	\$ 3,984	\$ 10,609
Earnings (loss) per common share-basic:		
Income from continuing operations	\$ 0.13	\$ 0.35
Income (loss) from discontinued operations, net of income taxes	(0.00)	0.01
Net income	\$ 0.13	\$ 0.36



Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

Earnings (loss) per common share-diluted:		
Income from continuing operations	\$ 0.13	\$ 0.34
Income (loss) from discontinued operations, net of income taxes	(0.00)	0.01
	<u>          </u>	<u>          </u>
Net income	\$ 0.13	\$ 0.35
	<u>          </u>	<u>          </u>

See notes to the unaudited consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance, April 24, 2005	33,528	\$ 335	\$ 148,177	\$ (1,488)	\$ 146,133	\$ 2,858	\$ (34,619)	\$ 261,396
Net income					3,984			3,984
Unrealized gain on interest rate swap contracts net of income taxes of \$49						74		74
Foreign currency translation adjustments						(4,045)		(4,045)
Comprehensive income								13
Exercise of stock options, including income tax benefit of \$90	12		(676)				873	197
Grant of nonvested stock			574	(574)				
Amortization of unearned compensation				78				78
Balance, July 24, 2005	33,540	\$ 335	\$ 148,075	\$ (1,984)	\$ 150,117	\$ (1,113)	\$ (33,746)	\$ 261,684

See notes to the unaudited consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Three Months Ended	
	July 24, 2005	July 25, 2004
<b>Operating activities:</b>		
Net income	\$ 3,984	\$ 10,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,269	23,623
Amortization of deferred financing costs	829	1,008
Amortization of unearned compensation	77	146
Deferred income taxes	(2,211)	
Minority interest	2,056	2,133
Changes in operating assets and liabilities:		
Accounts receivable	(66)	(1,310)
Income tax payable	4,461	7,549
Prepaid expenses and other assets	(7,714)	(7,950)
Accounts payable and accrued liabilities	10,653	14,643
Net cash provided by operating activities	37,338	50,451
<b>Investing activities:</b>		
Purchase of property and equipment	(62,924)	(28,429)
Acquisition of license	(5,150)	
Purchase of short-term investments, net of sales	(186)	
Payments on notes receivable	723	
Restricted cash	(173)	117
Prepaid deposits and other	(7,182)	831
Net cash used in investing activities	(74,892)	(27,481)
<b>Financing activities:</b>		
Proceeds from debt		2,502
Net increase in line of credit	10,000	
Principal payments on debt and cash paid to retire debt	(1,479)	(1,520)
Payment of deferred financing costs	(33)	(273)
Purchase of treasury stock		(6,360)
Proceeds from exercise of stock options	107	280
Cash distributions to minority partner	(768)	(1,185)
Net cash provided by (used in) financing activities	7,827	(6,556)
<b>Effect of foreign currency exchange rates on cash</b>	(690)	28
Net increase (decrease) in cash and cash equivalents	(30,417)	16,442
Cash and cash equivalents at beginning of period	146,743	134,582
Cash and cash equivalents at end of period	\$ 116,326	\$ 151,024

See notes to the unaudited consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(In thousands)

	<b>Three Months Ended</b>	
	<b>July 24, 2005</b>	<b>July 25, 2004</b>
<b>Supplemental disclosure of cash flow information:</b>		
Net cash payments for:		
Interest	\$ 7,063	\$ 4,597
Income taxes	737	(1,072)
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Other:		
Construction costs funded through accrued liabilities	1,116	1,124
Acquisition of license	14,950	

See notes to the unaudited consolidated financial statements.

---

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Nature of Operations**

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 Lake Charles and Bossier City, Louisiana; Lula, Biloxi, Vicksburg and Natchez, Mississippi; 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. All but two of these gaming facilities operate under the name Isle of Capri and feature the Company's distinctive tropical island theme. The Company receives a significant amount of its revenue from customers within 50 miles of the properties. If economic conditions in these areas were to decline materially or additional casino licenses were awarded in these locations, the Company's results of operations could be materially affected. In addition, the Company's operations are dependent on the continued licensing or qualification of the Company and such licensing and qualifications are reviewed periodically by the gaming authorities in the state of operation. 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 Company also wholly owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida.

On May 6, 2005, the Company signed a casino management and related development and option agreements with resort developer Eighth Wonder to manage the casino included in Eighth Wonder's proposal for a new integrated resort complex in Singapore should Eighth Wonder be selected to develop such complex. During the fiscal quarter ended July 24, 2005, the Company paid and expensed a \$4.0 million payment to Eighth Wonder pursuant to the terms of these agreements.

On May 11, 2005, the Company was selected by the Iowa Racing and Gaming Commission as the successful applicant for a gaming license in Waterloo, Iowa. The Company plans to spend approximately \$119.0 million in constructing a 35,000 square foot single level casino with 1,300 gaming positions, three of its signature restaurants, a 200-room hotel and 1,000 parking spaces. The Company expects the construction project to take approximately 20 months following the receipt of necessary permits and licenses.

**Interim Financial Information**

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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 GAAP 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. Operating results for the three months ended July 24, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2006. 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 24, 2005.

---

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Nature of Operations (continued)**

**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 2006 commenced on April 25, 2005 and ends on April 30, 2006.

**2. Summary of Significant Accounting Policies**

**New Pronouncements**

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows (SFAS 95). Generally, the accounting method required by SFAS 123(R) is similar to the accounting method required by SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) must be adopted as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company is required to adopt SFAS 123(R) for reporting periods beginning on May 1, 2006, but is continuing to evaluate its option to early adopt.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

- 1) A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
- 2) A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate for the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company is currently evaluating the two recognition methods available under SFAS 123(R) to determine which method it will adopt.

## Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The ongoing impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share below. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Accordingly, the adoption of SFAS 123(R)'s fair value method is expected to have a significant impact on its result of operations, although it will have no impact on the Company's overall financial position.

### **3. Stock-Based Compensation**

The Company applies the recognition and measurement principles of APB 25 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 related to stock option grants 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 SFAS 123 as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148), to stock-based employee compensation.



## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Stock-Based Compensation (continued)

	Three Months Ended	
	July 24, 2005	July 25, 2004
	(In thousands, except per share data)	
Income from continuing operations	\$ 4,042	\$ 10,609
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,022)	(971)
Pro forma Net Income before discontinued operations	\$ 3,020	\$ 9,638
Net Income (loss) from discontinued operations	\$ (58)	\$
Pro forma Net Income after discontinued operations	\$ 2,962	\$ 9,638
Earnings per share: Basic		
As Reported		
Income from continuing operations	\$ 0.13	\$ 0.36
Income (loss) from discontinued operations	\$ (0.00)	\$
Net Income	\$ 0.13	\$ 0.36
Earnings per share: Basic		
Pro Forma		
Income from continuing operations	\$ 0.10	\$ 0.32
Income (loss) from discontinued operations	\$ (0.00)	\$
Net Income	\$ 0.10	\$ 0.32
Earnings per share: Diluted		
As Reported		
Income from continuing operations	\$ 0.13	\$ 0.35
Income (loss) from discontinued operations	\$ (0.00)	\$
Net Income	\$ 0.13	\$ 0.35
Earnings per share: Diluted		
Pro Forma		
Income from continuing operations	\$ 0.10	\$ 0.31
Income (loss) from discontinued operations	\$ (0.00)	\$

## Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

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:

<u>Fiscal Quarter</u>	<u>Risk-Free Interest Rate</u>	<u>Original Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividends</u>
July 24, 2005	4.00%	6.26 years	55.8%	None
July 25, 2004	3.02%	6.05 years	57.8%	None

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Goodwill and Other Intangible Assets

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

Balance at April 24, 2005	\$ 340,409
Sale of Colorado Grande Enterprises, Inc	(2,897)
Foreign currency translation	(834)
	<u>          </u>
Balance at July 24, 2005	<u>\$ 336,678</u>

Other intangible assets consist of the following:

	July 24,	April 24,
	2005	2005
	<u>          </u>	<u>          </u>
Gaming licenses	\$ 74,518	\$ 53,379
Trademarks and player database	17,685	18,985
	<u>          </u>	<u>          </u>
Other intangible assets, net	<u>\$ 92,203</u>	<u>\$ 72,364</u>

During the quarter ended July 24, 2005, the Company recorded \$20.1 million of gaming license fees related to the Waterloo, Iowa project.

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. Long-Term Debt

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 July 24, 2005 and April 24, 2005.

	July 24, 2005	April 24, 2005
	(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	248,750	249,375
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below):		
Variable rate term loan Tranche C	162,938	163,350
Revolver	36,000	26,000
Special Assessment BID Bonds, non-recourse to Isle of Capri Casinos, Inc. (described below)	590	590
Blue Chip Credit Facility (6.50% at July 24, 2005) due January 2009; non-recourse to Isle of Capri Casinos, Inc. (described below)	6,312	6,942
Variable rate TIF Bonds due to City of Bettendorf (described below)	4,036	3,875
Variable rate General Obligation Bonds due to City of Davenport (described below)	1,675	1,830
12.5% note payable, due in monthly installments of \$125, including interest, beginning October 1997 through October 2005	248	494
Other	3,622	3,662
	<u>1,164,171</u>	<u>1,156,118</u>

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. Long-Term Debt (continued)

## 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 and the Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 10. 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%

Additionally, the Company may redeem a portion of the 7% senior subordinated notes with the proceeds of specified equity offerings.

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)

## 5. 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 are guaranteed by all of the Company's significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk and Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 10. 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)**

**5. Long-Term Debt (continued)**

**Senior Secured Credit Facility**

On February 4, 2005, the Company refinanced its senior secured credit facility. The refinanced facility provides for a \$400.0 million revolving credit facility maturing on February 4, 2010 and a \$250.0 million term loan facility maturing on February 4, 2011 (or February 6, 2012 if the Company elects to refinance its existing 9% Senior Subordinated Notes currently due March 2012) with an additional \$50.0 million delayed draw term loan available until August 3, 2005, at which time the option expires. At the Company's and the lead arranger's mutual discretion, the Company may increase the revolver and/or term loan, in an aggregate amount up to \$200.0 million, subject to certain conditions. The term loans are payable in quarterly installments beginning on March 31, 2005 and ending on February 4, 2011, unless extended as described above. The revolving credit facility may bear interest at the higher of (1) 0.5% 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 higher of (1) 0.5% 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 0.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of 1.75%.

The proceeds from the refinancing were used to pay down the existing senior secured credit facility term loan, of which \$205.6 million in principal and \$0.7 million in accrued interest were outstanding as of February 4, 2005. The remainder of the undrawn facility will be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditures and investments.

Pursuant to the refinancing, the Company recognized a loss before income taxes on early extinguishment of debt of \$5.3 million, due to the write-off of previously deferred financing costs related to its existing senior secured credit facility. The costs associated with the new senior secured credit facility have been deferred and are being amortized over the term of the new facility.

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 restricted subsidiaries.

The weighted average effective interest rate of total debt outstanding under the senior secured credit facility at July 24, 2005 was 5.19%.

At July 24, 2005, the Company had \$248.8 million outstanding under the senior secured credit facility and no amounts outstanding under the term loan facility or the delayed draw term loan.

**Isle-Black Hawk Senior Secured Credit Facility**

## Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

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 Isle-Black Hawk senior secured credit facility that commenced in June 2004, with a balloon payment of \$159.2 million due upon maturity.



---

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Long-Term Debt (continued)**

At the Isle-Black Hawk's option, the revolving credit facility loan may bear interest at (1) the higher of 0.5% 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 higher of 0.5% 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 Isle-Black Hawk senior secured credit facility as amended provides for certain covenants including those of a financial nature. The Isle-Black Hawk was in compliance with all of the covenants as of July 24, 2005. The Isle-Black Hawk senior secured credit facility is secured by liens on the Isle-Black Hawk's assets.

The weighted average effective interest rate of total debt outstanding under the Isle-Black Hawk Senior Secured Credit Facility at July 24, 2005 was 6.88%.

**Interest Rate Swap Agreements**

The Isle-Black Hawk has interest rate swap agreements with an aggregate notional value of \$80.0 million, or 42.2% of its variable rate term debt, outstanding under the Isle-Black Hawk's senior secured credit facility as of July 24, 2005. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until the fourth fiscal quarter of 2008, 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 2006 and \$40.0 million in fiscal 2008. The Company evaluates the effectiveness of these hedged transactions on a quarterly basis. No portion of the hedging instruments was ineffective during the quarter ended July 24, 2005. Accordingly, no gains or losses have been recognized on these cash flow hedges.

At July 24, 2005, 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, which is non-recourse to the Isle of Capri Casinos, Inc. In April 2000, the Isle-Black Hawk 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

## Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

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 OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Long-Term Debt (continued)**

**Blue Chip Credit Facility**

In 2004, Blue Chip entered into an agreement with the Bank of Scotland to borrow up to £3.5 million (\$6.8 million) to fund its casino development program. As of July 24, 2005, only £3.1 million (\$6.0 million) has been borrowed. The term loan is to be repaid in quarterly payments commencing in July 2005, and is to be repaid in April 2009 should Blue Chip borrow the additional £0.4 million (\$0.8 million). If the additional funds are not borrowed, the loan will be repaid in January 2009. The interest rate is either, at Blue Chip's option, the Bank of Scotland's base rate or LIBOR plus a margin of 1.75 percent.

**Isle-Bettendorf TIF Bonds**

As part of the City of Bettendorf Development Agreement dated June 17, 1997, the City of Bettendorf 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 of Bettendorf'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. 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 of Bettendorf \$0.25 per person for each person entering the boat until the remaining balance has been repaid.

**Isle-Davenport General Obligation Bonds**

In 2002, the Isle-Davenport entered into an agreement with the City of Davenport whereby the City of Davenport would construct and own a skybridge connecting to the Isle-Davenport's facility, allowing safer access across the street and railroad tracks. The project, which is currently under construction by the City of Davenport, is expected to cost \$6.4 million, with the Isle-Davenport obligated to pay \$1.8 million. In February 2004, the City of Davenport 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 annual payments of principal and interest to the City of Davenport to retire the bonds.

**Lines of Credit**

As of July 24, 2005, the Company had \$390.3 million of availability under its lines of credit.



## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. Comprehensive Income

Comprehensive income consists of the following:

	Unrealized gain (loss) on interest rate swaps	Foreign currency translation adjustment	Accumulated other comprehensive income
	—	—	—
	(In thousands)		
Balance, April 24, 2005	\$ 105	\$ 2,753	\$ 2,858
Net change	74	(4,045)	(3,971)
	—	—	—
Balance, July 24, 2005	\$ 179	\$ (1,292)	\$ (1,113)
	—	—	—

As a result of the operations of the Company's international subsidiaries with functional currencies other than the U.S. dollar, a resulting currency translation adjustment is necessary. The assets and liabilities of the Company's international subsidiaries are translated using the exchange rate in effect at the balance sheet date, with the resulting translation adjustment recognized as accumulated other comprehensive income.

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 \$27,000, net of income taxes, and is recorded as a current asset. There was no effect on income related to hedge ineffectiveness.

## 7. Contingencies

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 paid a fixed amount plus a percentage of revenues to various local governmental entities, including the City of Bossier City 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 an issue in the litigation, and which will remain in effect until its expiration on January 1, 2007, unless extended by the parties. The plaintiffs appealed the trial court's ruling to the Second Circuit Court of Appeal, and the appellate court reversed and remanded the matter. The Company, along with the other defendants, filed writ applications to appeal the matter to the Louisiana Supreme Court. The court has granted two applications for appeal—one filed on behalf of Bossier City and Bossier Parish, and another filed on behalf of the Bossier Sheriff's Office and the Greater Bossier Economic Development Foundation. A hearing has not been scheduled. The Company will continue to vigorously defend this matter as may be required.



---

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Contingencies (Continued)**

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 \$5.4 million as of July 24, 2005, 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 the decisions granted in its favor set for a hearing before the Administrative Supreme Court and the Greek Supreme Court. The administrative matter was heard during June 2005 and no decision has been rendered. The civil matter is 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.

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 January 2006. 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.

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.

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Earnings per Share of Common Stock

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

	Three Months Ended	
	July 24, 2005	July 25, 2004
(In thousands, except per share data)		
Numerator:		
Net income	\$ 3,984	\$ 10,609
Numerator for basic earnings per share - income available to common stockholders	\$ 3,984	\$ 10,609
Effect of diluted securities		
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	\$ 3,984	\$ 10,609
Denominator:		
Denominator for basic earnings per share - weighted - average shares	29,945	29,686
Effect of dilutive securities		
Employee stock options and nonvested restricted stock	1,416	1,063
Denominator for diluted earnings per share - adjusted weighted - average shares and assumed conversions	31,361	30,749
Basic earnings per share	\$ 0.13	\$ 0.36
Diluted earnings per share	\$ 0.13	\$ 0.35

Any options with an exercise price in excess of the average market price of the Company's common stock during the periods presented are not considered when calculating the dilutive effect of stock options for diluted earnings per share calculations.

## 9. Income Taxes

The Company's effective tax rate from continuing operations for the three months ended July 24, 2005 was 42.6% compared to 39.5% for the three months ended July 25, 2004, which, in each case, excludes an unrelated party's portion of the Colorado Central Station-Black Hawk's income taxes. The increase in effective rate over the comparable prior fiscal period is attributable to the effect of permanent items on full-year projected pre-tax income.





## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. 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 and \$500.0 million 7% Senior Subordinated Notes due 2014. 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 July 24, 2005 and April 24, 2005, statements of income for the three months ended July 24, 2005 and July 25, 2004 and cash flows for the three months ended July 24, 2005, and July 25, 2004.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATING CONDENSED GUARANTOR SUBSIDIARIES, NON-GUARANTOR SUBSIDIARIES,

## AND PARENT COMPANY FINANCIAL INFORMATION

## AS OF JULY 24, 2005 AND APRIL 24, 2005 AND FOR

## THE THREE MONTHS ENDED JULY 24, 2005 AND JULY 25, 2004

(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
<b>As of July 24, 2005</b>					
<b>Balance Sheet</b>					
Current assets	\$ 34,645	\$ 102,174	\$ 69,339	\$ (25,369)	\$ 180,789
Intercompany receivables	946,360	(271,228)	33,803	(708,935)	
Investments in subsidiaries	235,240	269,290	(3,798)	(500,732)	
Property and equipment, net	5,558	796,925	261,043		1,063,526
Other assets	21,260	404,311	56,011	(4,500)	477,082
<b>Total assets</b>	<b>\$ 1,243,063</b>	<b>\$ 1,301,472</b>	<b>\$ 416,398</b>	<b>\$ (1,239,536)</b>	<b>\$ 1,721,397</b>
Current liabilities	\$ 44,230	\$ 108,513	\$ 74,469	\$ (27,872)	\$ 199,340
Intercompany payables		623,878	84,414	(708,292)	
Long-term debt, less current maturities	946,250	7,982	202,773		1,157,005
Other accrued liabilities	(10,061)	89,048	(224)		78,763
Minority interest				24,605	24,605
Stockholders' equity	262,644	472,051	54,966	(527,977)	261,684
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,243,063</b>	<b>\$ 1,301,472</b>	<b>\$ 416,398</b>	<b>\$ (1,239,536)</b>	<b>\$ 1,721,397</b>



## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Consolidating Condensed Financial Information (continued)

	(b)				
	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
	For the Three Months Ended July 24, 2005				
<b>Statement of Income</b>					
Revenues:					
Casino	\$	\$ 233,351	\$ 50,500	\$	\$ 283,851
Rooms, food, beverage and other	85	49,245	11,736	(3,024)	58,042
Gross revenues	85	282,596	62,236	(3,024)	341,893
Less promotional allowances		49,893	10,466		60,359
Net revenues	85	232,703	51,770	(3,024)	281,534
Operating expenses:					
Casino	110	38,738	8,132		46,980
Gaming taxes		53,321	9,450		62,771
Rooms, food, beverage and other	9,900	88,677	22,854	(3,147)	118,284
Management fee expense (revenue)	(8,000)	8,041	(41)		
Depreciation and amortization	336	21,213	3,720		25,269
Total operating expenses	2,346	209,990	44,115	(3,147)	253,304
Operating income (loss)	(2,261)	22,713	7,655	123	28,230
Dividend income					
Interest expense	(17,520)	(15,272)	(4,653)	17,235	(20,210)
Interest income	15,999	302	2,008	(17,235)	1,074
Interest expense, net	(1,521)	(14,970)	(2,645)		(19,136)
Minority interest				(2,056)	(2,056)
Equity in income (loss) of subsidiaries	10,691	(527)	(1,063)	(9,101)	
Income (loss) from continuing operations before income taxes	6,909	7,216	3,947	(11,034)	7,038
Income taxes	2,925		71		2,996
Income (loss) from continuing operations	3,984	7,216	3,876	(11,034)	4,042
Loss from discontinued operations, net of taxes			58		58
Net income (loss)	\$ 3,984	\$ 7,216	\$ 3,818	\$ (11,034)	\$ 3,984

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Consolidating Condensed Financial Information (continued)

	(a)	(b)			
Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated	
For the Three Months Ended July 24, 2005					
<b>Statement of Cash Flows</b>					
Net cash provided by (used in) operating activities	\$ (21,831)	\$ 61,288	\$ 6,982	\$ (9,101)	\$ 37,338
Net cash provided by (used in) investing activities	(11,909)	(56,488)	(15,576)	9,081	(74,892)
Net cash provided by (used in) financing activities	(551)	(436)	8,794	20	7,827
Effect of foreign currency exchange rates on cash and cash equivalents			(690)		(690)
Net increase (decrease) in cash and cash equivalents	(34,291)	4,364	(490)		(30,417)
Cash and cash equivalents at beginning of the period	53,584	57,661	35,498		146,743
Cash and cash equivalents at end of the period	\$ 19,293	\$ 62,025	\$ 35,008	\$	\$ 116,326

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Consolidating Condensed Financial Information (continued)

			(b)		
	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
	For the Three Months Ended July 25, 2004				
<b>Statement of Income</b>					
Revenues:					
Casino	\$	\$ 235,779	\$ 46,301	\$	\$ 282,080
Rooms, food, beverage and other	55	46,312	7,167		53,534
Gross revenues	55	282,091	53,468		335,614
Less promotional allowances		46,690	10,203		56,893
Net revenues	55	235,401	43,265		278,721
Operating expenses:					
Casino		38,126	7,054		45,180
Gaming taxes		53,828	8,932		62,760
Rooms, food, beverage and other	6,405	86,058	18,335		110,798
Management fee expense (revenue)	(7,870)	8,163	(293)		
Depreciation and amortization	377	20,367	2,778		23,522
Total operating expenses	(1,088)	206,542	36,806		242,260
Operating income	1,143	28,859	6,459		36,461
Interest expense, net	10,110	(25,014)	(2,491)		(17,395)
Minority interest				(2,133)	(2,133)
Equity in income (loss) of subsidiaries	6,427	(131)	(2,349)	(3,947)	
Income (loss) from continuing operations before income taxes	17,680	3,714	1,619	(6,080)	16,933
Income taxes	7,071		(640)	255	6,686
Income (loss) from continuing operations	10,609	3,714	2,259	(6,335)	10,247
Income from discontinued operations, net of taxes			362		362
Net income	\$ 10,609	\$ 3,714	\$ 2,621	\$ (6,335)	\$ 10,609

## ISLE OF CAPRI CASINOS, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
<b>For the Three Months Ended July 25, 2004</b>					
<b>Statement of Cash Flows</b>					
Net cash provided by (used in) operating activities	\$ 27,948	\$ 19,772	\$ 6,677	\$ (3,946)	\$ 50,451
Net cash provided by (used in) investing activities	(4,423)	(17,719)	(7,715)	2,376	(27,481)
Net cash provided by (used in) financing activities	(6,952)	2,087	(3,261)	1,570	(6,556)
Effect of foreign currency exchange rates on cash and cash equivalents		28			28
Net increase (decrease) in cash and cash equivalents	16,573	4,168	(4,299)		16,442
Cash and cash equivalents at beginning of the period	33,323	70,916	30,343		134,582
Cash and cash equivalents at end of the period	\$ 49,896	\$ 75,084	\$ 26,044	\$	\$ 151,024

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
<b>As of April 24, 2005</b>					
<b>Balance Sheet</b>					
Current assets	\$ 63,560	\$ 82,644	\$ 64,871	\$ (6,627)	\$ 204,448
Intercompany receivables	896,214	(228,835)	42,463	(709,842)	
Investments in subsidiaries	233,544	269,817	(10,027)	(493,334)	
Property and equipment, net	4,630	774,165	248,111		1,026,906
Other assets	21,806	375,967	58,215	(5,896)	450,092
Total assets	\$ 1,219,754	\$ 1,273,758	\$ 403,633	\$ (1,215,699)	\$ 1,681,446
Current liabilities	\$ 22,360	\$ 99,930	\$ 67,110	\$ (9,738)	\$ 179,662
Intercompany payables		623,879	85,963	(709,842)	
Long-term debt, less current maturities	946,875	8,080	193,662		1,148,617
Other accrued liabilities	(7,939)	77,012	(527)		68,546
Minority interest				23,225	23,225
Stockholders' equity	258,458	464,857	57,425	(519,344)	261,396
Total liabilities and stockholders' equity	\$ 1,219,754	\$ 1,273,758	\$ 403,633	\$ (1,215,699)	\$ 1,681,446





---

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Consolidating Condensed Financial Information (continued)**

- (a) The following subsidiaries of the Company are guarantors of the 7% Senior Subordinated Notes and the 9% Senior Subordinated Notes: Riverboat Corporation of Mississippi; Riverboat Corporation of Mississippi-Vicksburg; Riverboat Services, Inc.; CSNO, L.L.C.; Louisiana Riverboat Gaming Partnership; St. Charles Gaming Company, Inc.; IOC Holdings, L.L.C.; Grand Palais Riverboat, Inc.; LRGH Holdings, L.L.C.; P.P.I, Inc.; Isle of Capri Casino Colorado, Inc.; IOC-Coahoma, Inc.; IOC-Natchez, Inc.; IOC-Lula, Inc.; IOC-Boonville, Inc.; IOC-Kansas City, Inc.; Isle of Capri Bettendorf, L.C.; Isle of Capri Marquette, Inc.; IOC-Davenport, Inc.; LL Holding Corporation; IOC-St. Louis County, Inc.; IOC-Black Hawk County, Inc.; IOC-PA, L.L.C.; IOC-City of St. Louis, L.L.C.; and IOC-Manufacturing, Inc.. Each of the subsidiaries guarantees joint and several with the guarantees of the other subsidiaries.
- (b) The following subsidiaries are not guarantors of the 7% Senior Subordinated Notes and the 9% Senior Subordinated Notes: Isle of Capri Black Hawk, L.L.C.; Isle of Capri Black Hawk Capital Corp.; IC Holdings Colorado, Inc.; CCSC/Blackhawk, Inc.; Colorado Grande Enterprises, Inc.; IOC-Black Hawk Distribution Company, L.L.C.; Blue Chip Casinos, PLC; Isle of Capri of Jefferson County, Inc.; Casino Parking, Inc.; Isle of Capri-Bahamas, Ltd.; ASMI Management, Inc.; IOC Development Company, L.L.C.; Casino America, Inc.; ICC Corp.; International Marco Polo Services, Inc.; IOC, L.L.C.; Isle of Capri of Michigan L.L.C.; Isle of Capri Bettendorf Marina Corp.; Water Street Redevelopment Corporation; IOC Services, L.L.C.; Louisiana Horizons, L.L.C.; Capri Air, Inc.; Lady Luck Gaming Corp.; Lady Luck Gulfport, Inc.; Lady Luck Vicksburg, Inc.; Lady Luck Biloxi, Inc.; Lady Luck Central City, Inc.; Pompano Park Holdings, L.L.C.; Casino America of Colorado, Inc.; JPLA Pelican, L.L.C.; IOC-Cameron, L.L.C.; Isle of Capri Casinos Limited and Capri Insurance Corporation.

**11. Subsequent Event**

On August 29, 2005, the Isle-Biloxi and the new casino barge under construction suffered extensive damage as a result of Hurricane Katrina. The Isle-Natchez and Isle-Vicksburg were closed on August 28, 2005 but suffered no significant damage and have subsequently re-opened for business. The Company's corporate headquarters in Biloxi, Mississippi was also damaged but the extent of damage is not known. Interim corporate operations will be conducted from other Company properties. The Company has business interruption and property insurance covering the Company's operations and assets.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

You should read the following discussion together with the financial statements, including the related notes, and the other financial information in this Form 10-Q.

**Executive 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 continue to investigate developing new locations, purchasing existing operations and expanding our current properties. These activities require capital-intensive investments that have long-term return potential. We have intentionally sought geographic diversity to limit the risks caused by weather, regional economic difficulties, and local gaming authorities and regulations. We currently operate casinos in Mississippi, Louisiana, Missouri, Iowa, Colorado and Freeport, Grand Bahama Island. We operate a harness racing track in Florida. Additionally, we have a controlling interest in casino investments in Dudley, Wolverhampton and Walsall, England, each of which is operated by the minority owners.

The following table reflects our consolidated net revenues and operating income by state:

	Three months ended			
	July 24, 2005	July 25, 2004	Variance \$	Variance %
<b>Net revenues:</b>				
Mississippi	\$ 67,192	\$ 62,676	\$ 4,516	7.2%
Louisiana	65,112	71,437	(6,325)	(8.9)%
Missouri	40,359	41,914	(1,555)	(3.7)%
Iowa	54,145	54,442	(297)	(0.5)%
Colorado	39,356	34,640	4,716	13.6%
International	9,070	8,347	723	8.7%
Corporate and other	6,300	5,265	1,035	19.7%
<b>Total net revenues</b>	<b>\$ 281,534</b>	<b>\$ 278,721</b>	<b>\$ 2,813</b>	<b>1.0%</b>
<b>Operating income:</b>				
Mississippi	\$ 6,872	\$ 8,887	\$ (2,015)	(22.7)%
Louisiana	5,986	10,239	(4,253)	(41.5)%
Missouri	6,255	6,253	2	0.0%
Iowa	12,194	12,167	27	0.2%
Colorado	9,294	8,424	870	10.3%
International	520	(1,655)	2,175	131.4%
Corporate and other	(12,891)	(7,854)	(5,037)	(64.1)%
<b>Operating income</b>	<b>\$ 28,230</b>	<b>\$ 36,461</b>	<b>\$ (8,231)</b>	<b>(22.6)%</b>

In Mississippi, our four operations contributed \$67.2 million or 23.9% of our net revenues during the three months ended July 24, 2005. Due primarily to the completion of the Isle-Biloxi hotel expansion, our Mississippi net revenues increased \$4.5 million. Increased marketing, employee benefits, depreciation, and the negative impact of Hurricane Dennis and Tropical Storm Cindy resulted in a decline in operating income of \$2.0 million. Because of the extensive damage caused by Hurricane Katrina to both Isle-Biloxi and the barge under construction which was to be installed in December 2005, we will be reviewing various alternatives for the reconstruction of the Isle-Biloxi.

In Louisiana, our two properties contributed \$65.1 million or 23.1% of our net revenues during the three months ended July 24, 2005. Net revenues decreased \$6.3 million due to the entry of a new branded competitor in the Lake Charles market as well as increasing competitive pressures in the Bossier City market. Operating income in Louisiana decreased \$4.3 million due to the decrease in gaming revenues. The Bossier City market is highly competitive and is facing increased competition from expansion of Native American gaming in Oklahoma.

In Missouri, our two properties contributed \$40.4 million or 14.3% of our net revenues during the three months ended July 24, 2005. Net revenues decreased \$1.6 million while operating income remained flat. Beginning in May 2005, traffic flow at the Isle-Kansas City property was disrupted by the closure of the Paseo Bridge on Interstate 35. The bridge closure is expected to continue through October 2005 and will likely result in reduction of Isle-Kansas City's gaming revenues during this period.

In Iowa, our three casinos contributed \$54.1 million or 19.2% of our net revenues during the three months ended July 24, 2005. Both net revenues and operating income remained flat over prior year.

In Colorado, our two Black Hawk properties contributed \$39.4 million or 14.0% of our net revenues during the three months ended July 24, 2005. In mid-June 2005, we completed the casino expansions at both casinos, a new restaurant, the skywalks connecting the casinos to the new garage and a total of 900 new parking spaces thus ending the most disruptive phase of our Isle-Black Hawk expansion projects. Construction of the new 162-room Colorado Central Station hotel is currently ahead of schedule and the hotel is expected to open near the end of calendar 2005. The last scheduled phase of the expansion is the extension of Main Street to Colorado Route 119, which is expected to be completed in the spring of 2006. During the three months ended July 24, 2005, a rock slide closed US 6, one of the highways providing access to the Isle-Black Hawk property, which the Company believes adversely affected the property's results. The Colorado Department of Transportation announced it expects to reopen US 6 in September 2005 and as a result, the second fiscal quarter of 2006 will also be negatively affected.

In our international locations, our properties contributed \$9.1 million or 3.2% of our net revenues during the three months ended July 24, 2005. Net revenues and operating income increased \$0.7 million and \$2.2 million, respectively, due primarily to the recording of \$1.0 million of business interruption proceeds at Isle-Our Lucaya, related to closings caused by Hurricane Jeanne and Hurricane Frances during the 2004 hurricane season, as well as decreased marketing expenses. Both our international locations continue to experience growing pains and are expected to continue to generate negative operating income.

Corporate and other increased approximately \$5.0 million mainly due to the \$4.0 million payment previously announced related to the agreement the Company signed with the resort developer Eighth

Wonder to manage a casino included in Eighth Wonder's proposed integrated resort complex in Singapore. Corporate and other expenses for the three months ended July 24, 2005 also include UK-related expenses of \$2.0 million compared to \$0.6 million for the three months ended July 25, 2004.

In Florida, regulation and timing of installation and operation of slot machines has not been determined. However, there have been published reports indicating the possibility of a special legislative session focused on Broward County in fall of 2005.

We remain committed to our development project in the UK to build a casino in Coventry; however, legislation enacted in April 2005 limits the number of regional casinos to one. The number may be increased only through additional legislation. We have obtained all necessary gaming licenses to open a casino at the RICOH Arena Coventry in the summer of 2006 under the Gaming Act of 1968. We believe we are well positioned to develop a regional casino in Coventry should we be awarded a regional casino license.

### **Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles that require our management to make estimates and assumptions that affect reported amounts and related disclosures. Management identifies critical accounting estimates as:

those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made;

those estimates where, had we chosen different estimates or assumptions, the resulting differences would have had a material impact on our financial condition, changes in financial condition or results of operations; and

those estimates that, if they were to change from period to period, likely would result in a material impact on our financial condition, changes in financial condition or results of operations.

Based upon management's discussion of the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, we believe the following accounting estimates involve a higher degree of judgment and complexity.

### ***Goodwill and Other Intangible Assets***

At July 24, 2005, we had goodwill and other intangible assets with indefinite useful lives of \$428.9 million, representing 24.9% of total assets. Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets* (SFAS 142), requires that goodwill and intangible assets with indefinite useful lives be tested for impairment annually or more frequently if an event occurs or circumstances change that may reduce the fair value of the company's goodwill and intangible assets below its carrying value. We completed our annual impairment test as required under SFAS 142 in the fourth quarter of fiscal year 2005 and determined that, other than the goodwill associated with our Colorado Grande-Cripple Creek casino, goodwill and other indefinite-lived intangible assets were not impaired. For properties with goodwill and/or other intangible assets with indefinite lives, this test requires the comparison of the implied fair value of each property to carrying value. The implied fair value includes estimates of future cash flows that are based on reasonable and supportable assumptions and represent our best estimates of the cash flows expected to result from the use of the assets and their eventual disposition. Changes in estimates or application of alternative assumptions and definitions could produce significantly different results.



### ***Property and Equipment***

At July 24, 2005, we had property and equipment of \$1.1 billion, representing 61.78% of total assets. We capitalize the cost of property and equipment. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Costs incurred in connection with the Company's all properties other capital improvements, program, as detailed in the Liquidity and Capital Resources section below, include individual capital expenditures related to the purchase of furniture and equipment and to the upgrade of hotel rooms, restaurants and other areas of our properties. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as our current operating strategy. Future events such as property expansions, new competition and new regulations could result in a change in the manner in which we are using certain assets requiring a change in the estimated useful lives of such assets. We evaluate long-lived assets for impairment using Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In assessing the recoverability of the carrying value of property and equipment, we make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

### ***Self-Insurance Liabilities***

We are self-funded up to a maximum amount per claim for our employee-related health care benefits program, workers' compensation insurance and general liability insurance. Claims in excess of this maximum are fully insured through a stop-loss insurance policy. We accrue for these liabilities based on claims filed and estimates of claims incurred but not reported. We rely on independent consultants to assist in the determination of estimated accruals. While the total cost of claims incurred depends on future developments, such as increases in health care costs, in our opinion, recorded reserves are adequate to cover payment of future claims.

### ***Income Tax Assets and Liabilities***

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires that we recognize a current tax asset or liability for the estimated taxes payable or refundable based upon application of the enacted tax rates to taxable income in the current year. Additionally, we are required to recognize a deferred tax liability or asset for the estimated future tax effects attributable to temporary differences. Temporary differences occur when differences arise between: (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. SFAS 109 also requires that any deferred tax asset recognized must be reduced by a valuation allowance for any tax benefits that, in our judgment and based upon available evidence, may not be realizable.

The deferred tax assets and liabilities, as well as the need for a valuation allowance, are evaluated on a quarterly basis and adjusted if necessary. We use forecasted future operating results and consider enacted tax laws and rates in determining if the valuation allowance is sufficient. We operate in multiple taxing jurisdictions and are therefore subject to varying tax laws and potential audits, which could impact our assessments and estimates.

### ***Contingencies***

We are involved in various legal proceedings and have identified certain loss contingencies. We record liabilities related to these contingencies when it is determined that a loss is probable and reasonably estimable. These assessments are based on our knowledge and experience as well as the advice of legal counsel regarding current and past events. Any such estimates are also subject to future events, court rulings, negotiations between the parties and other uncertainties. If an actual loss differs from our estimate, or the actual outcome of any of the legal proceedings differs from expectations, operating results could be impacted.

We routinely face challenges from federal and other tax authorities regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. We record tax accruals for probable exposures associated with the various filing positions in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

### ***Slot Club Awards***

We reward our slot customers for their loyalty based on the dollar amount of play on slot machines. We accrue for these slot club awards based on an estimate of the value of the outstanding awards utilizing the age and prior history of redemptions. Future events such as a change in our marketing strategy or new competition could result in a change in the value of the awards.

### **Results of Operations**

Our results of operations for the three months ended July 24, 2005, reflect the consolidated operations of all of our subsidiaries and include the following properties: the Isle-Bossier City, the Isle-Lake Charles, the Isle-Biloxi, the Isle-Lula, the Isle-Natchez, the Isle-Vicksburg, the Isle-Kansas City, the Isle-Boonville, the Isle-Bettendorf, the Isle-Marquette, the Rhythm City-Davenport, the Isle-Black Hawk, the Colorado Central Station-Black Hawk, the Isle-Our Lucaya, the Blue Chip-Dudley, the Blue Chip-Wolverhampton, the Blue Chip-Walsall and Pompano Park. For the three months ended July 25, 2004, results have been reclassified to reflect the Colorado Grande-Cripple Creek as discontinued operations.

Our results of operations for the three months ended July 25, 2004 reflect the consolidated operations of all of our subsidiaries and include the following properties: the Isle-Bossier City, the Isle-Lake Charles, the Isle-Biloxi, the Isle-Lula, the Isle-Natchez, the Isle-Vicksburg, the Isle-Kansas City, the Isle-Boonville, the Isle-Bettendorf, the Isle-Marquette, the Rhythm City-Davenport, the Isle-Black Hawk, the Colorado Central Station-Black Hawk, the Colorado Grande-Cripple Creek, the Isle-Our Lucaya, Blue Chip-Dudley, Blue Chip-Wolverhampton and Pompano Park. The Isle-Our Lucaya began operations in December of 2003. We purchased a two-thirds interest in Blue Chip Casinos, PLC ( Blue Chip ) in November of 2003. Blue Chip owns and operates a pub-style casino in Dudley, England, and a pub-style casino in Wolverhampton, England, which began operations in April of 2004. Blue Chip opened a pub-style casino at Walsall in October 2004. For the three months ended July 25, 2004, results have been reclassified to reflect the Colorado Grande-Cripple Creek as discontinued operations.





We believe that our historical results of operations may not be indicative of our future results of operations because of the substantial present and expected future increase in competition for gaming customers in each of our markets, as new gaming facilities open and existing gaming facilities expand or enhance their facilities. We also believe that our operating results are materially affected by declines in the economy and adverse weather.

***Three Fiscal Months Ended July 24, 2005 Compared to Three Fiscal Months Ended July 25, 2004***

Gross revenues for the fiscal quarter ended July 24, 2005 were \$341.9 million, which included \$283.8 million of casino revenue, \$14.3 million of room revenue, \$5.2 million of pari-mutuel commissions, and \$38.6 million of food, beverage and other revenue. This compares to gross revenues for the fiscal quarter ended July 25, 2004 of \$335.6 million, which included \$282.1 million of casino revenue, \$12.9 million of room revenue, \$4.4 million of pari-mutuel commissions and \$36.2 million of food, beverage and other revenue.

Casino revenue increased slightly compared to fiscal quarter July 25, 2004. We saw an increase in casino revenues at our Mississippi properties due primarily to the completion of the 400-room hotel expansion at Isle-Biloxi. This increase was mostly offset by a sharp decline in revenues at the Isle-Lake Charles as a result of the entry of a new competitor into the market and the completion of another competitor's expansion project, as well as increased competition at the Isle-Bossier City due to American Indian gaming in Oklahoma. In Colorado, casino revenues increased as construction has been completed and disruption has ceased.

Room revenue increased \$1.4 million, or 10.8%, compared to fiscal quarter ended July 25, 2004 primarily as a result of the additional capacity at the Isle-Biloxi. Pari-mutuel commissions earned at Pompano Park in Florida for the fiscal quarter end were up a total of \$0.7 million, or 16.5%, due to an increase in racing days in fiscal 2006 vs. fiscal 2005. Food and beverage revenues increased by \$2.4 million, or 6.6%, because of renovations made to the buffets at the Isle-Vicksburg, the Isle-Lake Charles and the Isle-Bossier City. The addition of the Isle-Our Lucaya and the Blue Chip locations also added to food and beverage revenues.

Promotional allowances, which are made up of complimentary revenues, cash points and coupons, are rewards that we give our loyal customers to encourage them to continue to patronize our properties. These allowances increased by 6.1% in fiscal quarter ended July 24, 2005, as we increased our direct mail efforts to promote play.

Casino operating expenses increased 4.0% compared to fiscal quarter ended July 25, 2004. These expenses are primarily comprised of salaries, wages and benefits and other operating expenses of the casinos. Isle-Biloxi incurred additional casino operating expenses due to preparations for Tropical Storm Cindy and the closure during Hurricane Dennis.

State and local gaming taxes remained flat compared to fiscal quarter ended July 25, 2004. The rate of taxes as a percent of gaming revenue decreased from 22.2% to 22.1% due to revenue mix. Iowa increased gaming taxes from 20% to 22% of adjusted gross receipts effective July 1, 2004. The increase in tax rate was offset by lower revenues in Louisiana.

Room expenses increased \$0.2 million, or 6.7%, compared to fiscal quarter ended July 25, 2004. These expenses directly relate to the cost of providing hotel rooms. Other costs of the hotels are shared with the casinos and are presented in their respective expense categories. The increase in expenses was due primarily to the additional room capacity at the Isle-Biloxi.

Pari-mutuel operating costs of Pompano Park in Florida increased 12.9% compared to fiscal quarter ended July 25, 2004. This is related to an increase in racing days in 2006 vs. 2005. Such costs consist primarily of compensation, benefits, purses, simulcast fees and other direct costs of track operations.

Food and beverage expenses increased 0.5% over fiscal quarter ended July 25, 2004. These expenses consist primarily of the cost of goods sold, salaries, wages and benefits and other operating expenses of these departments. Food, beverage and other expenses as a percentage of gross food, beverage and other revenues decreased from 25.1% for the fiscal quarter ended July 25, 2004, to 23.7% for the fiscal quarter ended July 24, 2005.

Marine and facilities expenses decreased \$0.2 million, or 1.4%, compared to fiscal quarter ended July 25, 2004. These expenses include salaries, wages and benefits of the marine and facilities departments, operating expenses of the marine crews, insurance, maintenance of public areas, housekeeping and general maintenance of the riverboats and pavilions.

Marketing and Administrative expenses increased \$7.1 million, or 9.0%, compared to fiscal quarter ended July 25, 2004. The increase in expenses is primarily due to \$5.7 million in new development and increased marketing efforts in select markets. Marketing expenses include salaries, wages and benefits of the marketing and sales departments, as well as promotions, direct mail, advertising, special events and entertainment. Administrative expenses include administration and human resource department expenses, rent, new development activities, professional fees and property taxes.

Depreciation expense increased by 7.4% compared to fiscal quarter ended July 25, 2004. Depreciation has increased as a result of the company's capital expansion programs. The increase was primarily due to the capital additions at the Isle-Biloxi, Isle-Bossier City, the Isle-Lake Charles and the Isle-Kansas City.

Net interest expense increased 13.7% compared with fiscal quarter ended July 25, 2004. This is attributable to the higher interest rates and higher debt balances on our and Isle-Black Hawk's senior secured credit facilities partially offset by higher interest income and higher capitalized interest.

The Company's effective tax rate from continuing operations for the quarter ended July 24, 2005 was 42.6% compared to 39.5% for fiscal quarter ended July 25, 2004, which, in each case, excludes an unrelated party's portion of the Colorado Central Station-Black Hawk's income taxes. The increase in effective rate over the comparable prior fiscal period is attributable to the effect of permanent items on full-year projected pre-tax income.

### **Liquidity and Capital Resources**

At July 24, 2005, we had cash and cash equivalents and marketable securities of \$132.4 million compared to \$162.7 million at April 24, 2005, the end of our last fiscal year. Of this \$30.3 million decrease, \$30.4 million is a decrease in cash and cash equivalents and is the net result of

Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

\$37.3 million net cash provided by operating activities, \$74.8 million net cash used in investing activities, \$7.8

Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

million net cash provided by financing activities and \$0.7 million decrease in cash from the effect of foreign currency exchange rates. The offsetting increase of \$0.1 million is marketable securities held by Capri Insurance Corporation, of which we have the ability to draw up to 50% of the balance of these securities. In addition, as of July 24, 2005, we had \$390.4 million of capacity under lines of credit and available term debt which consisted of \$382.3 million in unused credit capacity under the revolving loan commitment on our senior secured credit facility, \$4.0 million of unused credit capacity under the Isle-Black Hawk's senior secured credit facility (limited to use by the Isle-Black Hawk), and \$4.1 million under other lines of credit and available term debt. During the quarter ended July 24, 2005, the Isle-Black Hawk drew down \$10.0 million on its revolving loan under the Isle-Black Hawk's senior secured credit facility. We believe that existing cash, cash flow from operations and available borrowings under our lines of credit will be sufficient to support our working capital needs, planned capital expenditures and debt service requirements for the foreseeable future.

**Investing Activities**

We invested \$63.7 million in property and equipment during the fiscal quarter ended July 24, 2005. The following table reflects expenditures and accruals for property and equipment on major projects for which we are committed to in fiscal quarter ended July 24, 2005 and projected expenditures for these projects. The amounts in the table do not include any expenditures and accruals prior to the beginning of fiscal 2005.

Property	Project	Actual		Remaining	
		Fiscal Year Ended 4/24/05	Three Months Ended 7/24/05	Fiscal Year Ending 4/30/06	Thereafter
(dollars in millions)					
Isle-Biloxi	Construct hotel & parking facility	\$ 43.5	\$ 9.5	\$	\$
Isle-Biloxi (1)	Construct casino barge	7.4	7.4		
Isle-Bossier City	Construct hotel & entertainment center	5.8			
Isle-Bossier City	Renovate casino	2.4	2.2		
Isle-Bettendorf	Construct hotel			4.3	40.7
Isle-Lake Charles	Renovate & expand casinos	11.6	3.2	3.2	
Isle-Pompano	Construct casino		7.4	2.9	
Isle-Boonville	Construct hotel	2.0	1.7	13.9	
Isle-Black Hawk (57% owned)	Expansion & public improvements	62.5	9.2	11.6	
Isle-Waterloo	Construct casino & hotel		0.1	13.9	107.0
Coventry	Construct leasehold improvements	8.4	5.5	25.2	16.7
Blue Chip	Construct leasehold improvements	2.2			
Other properties (2)	IGT Advantage program	9.3	1.5	2.2	
All	Slot programs	31.8	6.8	24.2	
All	Other capital improvements	30.4	9.2	49.1	13.1
<b>Total</b>		<b>\$ 217.3</b>	<b>\$ 63.7</b>	<b>\$ 150.5</b>	<b>\$ 177.5</b>

(1) Cost of reconstruction following the damage of Hurricane Katrina is unknown at this time.

(2) Includes: Isle-Biloxi, Isle-Vicksburg, Isle-Natchez and Isle-Lula.

The other capital improvements at all of our properties consists of numerous capital expenditures related to the purchase of furniture and equipment and the upgrade of hotel rooms, restaurants and other areas of our properties.



The previously announced Isle-Biloxi hotel and parking plan, estimated at \$79.0 million, included an additional 400 hotel rooms, a 12,000 square-foot convention/entertainment center, an expanded pool and spa area and a 1,000-space parking facility. This project was completed prior to Hurricane Katrina, with the exception of the spa. In October 2004, we announced plans to replace the casino at the Isle-Biloxi with a new state-of-the-art casino facility, which was expected to cost approximately \$90.0 million and was expected to be opened in December 2005. The Isle-Biloxi and the new casino barge under construction were extensively damaged by Hurricane Katrina. We will be reviewing various alternatives for the reconstruction of the Isle-Biloxi.

We have signed a development agreement with the City of Bettendorf pursuant to which we agreed to construct a new 250-room Isle hotel, additional parking, a Kitt's Kitchen restaurant, and an expansion of the existing buffet and the City agreed to construct a 50,000 square foot convention center adjacent to the company's facility, which will be managed by the Isle-Bettendorf. The cost of our portion of this project is approximately \$45.0 million, and the new hotel is scheduled to open in the late spring of 2007.

We have begun construction of a 140-room hotel, including 20 suites and a 6,000 square foot event center at the Isle-Boonville. The project is expected to be complete in late spring of 2006 and we have spent approximately \$2.0 million on the project. The remaining \$15.6 will be spent in fiscal 2006.

We are in the final stages of a \$94 million expansion project for the Isle-Black Hawk and Colorado Central Station-Black Hawk properties. We recently completed our expansion of the Isle-Black Hawk and the Colorado Central Station-Black Hawk casinos. We have completed a portion of our new parking structure with 600 parking spaces open to the public. The new 162-room Colorado Central Station hotel is currently ahead of schedule and expected to be completed near the end of calendar year 2005. Additionally, we continue to construct public improvements to extend Main Street directly to Colorado Route 119, approximately one half-mile closer to Denver. Completion is expected in the spring of 2006.

As announced in December 2003, we entered into an agreement to develop and operate an Isle of Capri-themed casino, subject to obtaining a license, in a commercial leisure complex currently under development in Coventry, England. In fiscal year 2005, Isle was granted a gaming license to open the Coventry casino under the current legislation (Gaming Act 1968). Originally, total project costs were estimated to be \$94.9 million, but recently that estimate was reduced to \$55.8 million. Project costs for the leased space include design, architectural, mechanical and electrical build-out, construction and equipment. As of fiscal quarter end July 24, 2005, we have spent \$13.9 million on the Coventry project and expect to spend the remainder over the next 15 months. Completion date for the casino at the RICOH™ Arena Coventry is estimated to be August 2006.

The Isle-Marquette had planned \$5.9 million in improvements, which included a 60-room hotel and improved parking. This construction has been delayed due to wetlands remediation approvals. We are currently evaluating other alternative hotel development scenarios for this property.

We have been selected by the Iowa Racing and Gaming Commission as the successful applicant for a gaming license in Waterloo, Iowa. We plan to spend approximately \$119.0 million on constructing a 35,000 square foot single level casino with 1,300 gaming positions, three of our signature restaurants, a 200-room hotel and 1,000 parking spaces. We expect the construction project to take approximately 20 months following the receipt of necessary permits and licenses.

In May 2005, we signed a casino management and related development and option agreements with resort developer Eighth Wonder to manage the casino included in Eighth Wonder's proposal for a new integrated resort complex in Singapore should Eighth Wonder be selected to develop such complex. During the fiscal quarter ended July 24, 2005, we paid and expensed a \$4.0 million payment to Eighth Wonder pursuant to the terms of these agreements.

On March 15, 2004, we announced that we had been selected by the Illinois Gaming Board as the successful bidder in a federal bankruptcy court auction for the 10th Illinois gaming license conducted pursuant to an agreement approved by, among other parties, the Illinois Attorney General. We bid \$518.0 million to acquire by merger the stock of a company in bankruptcy that owns the license. Our bid currently expires on September 30, 2005, which date has been extended monthly by us several times. If this merger is completed, we expect to spend approximately \$150.0 million in addition to amounts already expended at the site in Rosemont, Illinois to construct a single-level, 40,000 square foot casino with 1,200 gaming positions, restaurants, an entertainment venue and retail space. We plan to finance the Rosemont, Illinois project through equity contributions from us and from a limited number of individual investors, who in the aggregate will own 20% as required by Illinois law, in an amount sufficient to allow non-recourse financing for the remainder of the cash needed to complete the project. The federal bankruptcy court has confirmed the plan of reorganization pursuant to which the merger would be consummated.

The merger remains subject to certain conditions, including a finding of suitability and final approval by the Illinois Gaming Board as well as certain other conditions. In addition, the Illinois Attorney General has raised issues with regard to the appropriateness of the Village of Rosemont as a host community and the Illinois Gaming Board's selection of our bid. The Illinois Gaming Board (working with the Illinois Attorney General) has also resumed an administrative proceeding seeking to revoke the gaming license from our proposed merger partner, which if successful may adversely impact our ability to operate a gaming facility in the Village of Rosemont. The Illinois Attorney General has also filed a suit against the Illinois Gaming Board seeking to enjoin the Board from conducting a suitability investigation of us in connection with the merger provided for under the plan of reorganization (which suitability review has been suspended by the Illinois Gaming Board pending the completion of the aforementioned revocation proceeding). During the fourth quarter of fiscal 2005, the governor of Illinois appointed a new gaming board. One of the first acts by the new board was to authorize the reinstatement of the proceeding to rescind the license from the current owner. For the reasons set forth above, among others, we believe that our ability to obtain the gaming license and open a gaming facility in Rosemont is subject to added uncertainty. The Illinois Supreme Court has also agreed to review certain challenges to amendments to the Illinois Riverboat Gambling Act relating to the proposed relocation of the 10<sup>th</sup> license. There can be no assurance that the foregoing conditions will be satisfied or that we will ultimately acquire the license. Additionally, because Illinois limits the number of gaming licenses, each license has intrinsic value. Therefore, this license is considered an intangible asset. As such, the full cost of the license and all associated costs were originally capitalized in the amount of \$2.5 million. Due to the continuing uncertainty with respect to this matter, we have recorded a valuation charge for the full amount expended at April 24, 2005. We do not anticipate any significant expenditures related to the monthly renewal.

On October 29, 2004, we loaned \$5.0 million to Florida Gaming Corporation ( Florida Gaming ). Interest accrues on the unpaid principal balance of the loan at an annual rate of 6.0% 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 us pursuant to which Florida Gaming and FGC gave us 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.

In November 2004, voters in the State of Florida voted to amend the state's constitution to allow the voters of Miami-Dade and Broward counties (Broward County is the location of the Pompano Park Racetrack) to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. Broward county voters passed their local referendum and Dade county voters rejected their referendum in March 2005. Enabling gaming legislation was not passed in the current session of the Florida legislature despite the constitutional requirement that such legislation be in effect by July 1, 2005. Along with the other Broward county pari-mutuels, we filed a lawsuit seeking authority to proceed with the development of slot machine facilities despite the absence of enabling legislation. On June 21, 2005, the Circuit Court judge issued a decision in favor of the pari-mutuel facilities, which decision is on appeal. Accordingly, the regulation and timing of installation and operation of slot machines has not been finally determined. Should we be successful, we plan to construct a new facility in two phases. Phase I will include an expansion of the existing facility to accommodate 1,800 to 2,000 additional slots, at a cost of approximately \$155.0 million to be completed in approximately nine to twelve months from project start. Phase II, subject to timing and circumstances of Phase I, will include an additional facility expansion and an additional 1,000 slots at a planned cost of approximately \$85.0 million.

In January 2005, we announced plans to deploy the IGT Advantage Casino System. The total cost of the project is expected to be approximately \$24.7 million, of which \$1.6 million is included in the Colorado Central Station-Black Hawk property expansion project discussed above. We have also spent \$7.7 million at the Isle-Biloxi, the Isle-Vicksburg, the Isle-Lula and the Isle-Natchez, leaving a remaining budget of \$15.4 million. This will allow our properties to experience product upgrades to operate more competitively within their markets. Our slot improvement initiative also includes an increased ticket-in/ticket-out slot product offering.

In June 2005, the Company and the City of Davenport agreed to a \$43.0 million project that has the Isle building a 180-room hotel and rooftop restaurant, and the City constructing a 500+ space-parking ramp and providing funding to realign the casino with the new hotel facility. This project is expected to open 18-20 months after all permits and approvals are received.

We expense all developmental costs until we determine that ultimate licensure and operation is deemed probable. At that time, we evaluate the applicable costs and capitalize if appropriate.

All of our development plans are subject to obtaining permits, licenses and approvals from appropriate regulatory and other agencies and, in certain circumstances, negotiating acceptable leases. In addition, many of the plans are preliminary, subject to continuing refinement or otherwise subject to change.

### ***Financing Activities***

During the three fiscal months ended July 24, 2005, we had net sources of cash of \$7.8 million primarily in the following financing activities:

We made net borrowings under the Isle-Black Hawk's senior secured credit facility of \$10.0 million.



We made principal payments on our senior secured credit facility and other debt of \$1.5 million.

We made cash distributions to a minority partner totaling \$0.7 million.

As of July 24, 2005, we had \$390.3 million of capacity under lines of credit and available term debt consisting of \$382.3 million in unused credit capacity under the revolving loan commitment on our senior secured credit facility, \$4.0 million of unused credit capacity under the Isle-Black Hawk's senior secured credit facility (limited to use by the Isle-Black Hawk) and \$4.0 million of available credit under other lines of credit. The revolving loan commitment is a variable rate instrument based on, at our option, LIBOR or our lender's prime rate plus the applicable interest rate spread, and is effective through February 2011. Our lines of credit are also at variable rates based on our lender's prime rate and are subject to annual renewal. There is no assurance that these sources will in fact provide adequate funding for the expenditures described above or that planned capital investments will be sufficient to allow us to remain competitive in our existing markets.

During fiscal 2005, we modified the covenants related to the Isle-Black Hawk senior secured credit facility to align the covenants with the financial impact of construction at Isle-Black Hawk. The Isle-Black Hawk is in compliance with all covenants contained in our senior and subordinated debt instruments as of July 24, 2005. If we do not maintain compliance with these covenants, the lenders under the Black Hawk senior secured credit facility have the option (in some cases, after the expiration of contractual grace periods), but not the obligation, to demand immediate repayment of all or any portion of the obligations outstanding under the facility. Any significant deterioration of earnings could affect certain of our covenants. Adverse changes in our credit rating or stock price would not impact our borrowing costs or covenant compliance under existing debt instruments. Future events, such as a significant increase in interest rates can be expected to increase our costs of borrowing under the Black Hawk senior secured credit facility. The indentures governing our 7% senior subordinated notes and our 9% senior subordinated notes limit, among other things, our ability to borrow money, create liens, make restricted payments and sell assets. We anticipate being in compliance with these debt covenants during fiscal year 2006.

We are highly leveraged and may be unable to obtain additional debt or equity financing on acceptable terms. As a result, limitations on our capital resources could delay or cause us to abandon certain plans for capital improvements at our existing properties and/or development of new properties. We will continue to evaluate our planned capital expenditures at each of our existing locations in light of the operating performance of the facilities at such locations.

### **Recently Issued Accounting Standards**

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows (SFAS 95). Generally, the accounting method required by SFAS 123(R) is similar to the accounting method required by SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair market values. Pro forma disclosure is no longer an alternative. SFAS 123(R) must be adopted as of the beginning of the first interim or annual reporting period of our first fiscal year that begins on or after June 15, 2005. Early adoption will be permitted in periods in

which financial statements have not yet been issued. We are required to adopt SFAS 123(R) for reporting periods beginning on May 1, 2006, but are continuing to evaluate our option to early adopt.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

- 1) A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
- 2) A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate for the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We are currently evaluating the two recognition methods available under SFAS 123(R) to determine which method we will adopt.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method is expected to have a significant impact on our results of operations, although it will have no impact on our overall financial position. The ongoing impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our consolidated financial statements. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Market risk is the risk of loss arising from adverse changes in market rates and prices, including interest rates, foreign currency exchange rates, commodity prices and equity prices. Our primary exposure to market risk is interest rate risk associated with our senior secured credit facility and the Isle-Black Hawk senior secured credit facility.

**Isle-Black Hawk Senior Secured Credit Facility**

The Isle-Black Hawk has entered into seven interest rate swap agreements with an aggregate notional value of \$80.0 million, or 49.0% of its variable rate term debt, outstanding under the Isle-Black Hawk's senior secured credit facility as of July 24, 2005. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until the fourth fiscal quarter of 2008, thus reducing the impact of interest rate changes on future interest expense. These interest rate swap agreements terminate as follows: \$40.0 million in each of fiscal 2006 and 2008. 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 July 24, 2005. Accordingly, no gains or losses have been recognized on these cash flow hedges.

The following table provides information at April 24, 2005 about our financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. There have been no material changes to this information since April 24, 2005.

**Interest Rate Sensitivity****Principal (Notional) Amount by Expected Maturity****Average Interest (Swap) Rate****Fiscal year**

(dollars in millions)	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value 4/24/2005
<b>Liabilities</b>								
Long-term debt, including current portion								
Fixed rate	\$ 1.6	\$ 1.1	\$ 1.2	\$ 1.3	\$ 1.0	\$ 704.3	\$ 710.5	\$ 706.4
Average interest rate	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%		
Variable rate	\$ 5.9	\$ 31.4	\$ 164.5	\$ 4.5	\$ 2.5	\$ 236.9	\$ 445.7	\$ 445.7
Average interest rate (1)	6.0%	6.6%	6.7%	6.3%	6.4%	6.6%		
<b>Interest Rate Derivative Financial Instruments Related to Debt</b>								
Interest rate swaps								
Pay fixed/receive variable (2)	\$ 40.0	\$ 40.0	\$ 40.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 80.0	\$ 0.3
Average pay rate	2.6%	3.8%	3.8%	0.0%	0.0%	0.0%		
Average receive rate	3.6%	4.2%	4.4%	0.0%	0.0%	0.0%		

- (1) Represents the annual average LIBOR from the forward yield curve at April 24, 2005 plus the weighted average margin above LIBOR on all consolidated variable rate debt.

Edgar Filing: ISLE OF CAPRI CASINOS INC - Form 10-Q

(2) Fair value represents the amount we would have to pay the counter party if we had terminated the swap agreements at April 24, 2005.

We are also exposed to market risks relating to fluctuations in currency exchange rates related to our ownership interests and development activities in the UK.

**ITEM 4. CONTROLS AND PROCEDURES.**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of July 24, 2005, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as of July 24, 2005.

**CHANGES IN INTERNAL CONTROLS**

During the fiscal quarter ended July 24, 2005, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

See Legal Proceedings in Item 3 of our Form 10-K for the fiscal year ended April 24, 2005.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (1)
April 25, 2005 to May 22, 2005		\$		488,205
May 23, 2005 to June 26, 2005				488,205
June 27, 2005 to July 24, 2005				488,205
<b>Total</b>		<b>\$</b>		<b>488,205</b>

- (1) We have purchased our common stock under two separate repurchase programs. The first program, which allowed repurchase of up to 1,500,000 shares, was announced on November 15, 2000 and subsequently expanded to allow repurchase of an additional 1,500,000 shares, as announced on January 11, 2001. The current program was announced on October 25, 2002 and allows for the repurchase of up to 1,500,000 shares. Through July 24, 2005, we have purchased 4,011,795 shares of our common stock under the two programs. These programs do not have maximum approved dollar amounts, nor expiration dates.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. SUBMISSION OF MATTERS SUBJECT TO A VOTE OF SECURITY HOLDERS.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

See the Index to Exhibits following the signature page hereto for a list of the exhibits filed pursuant to Item 601 of Regulation S-K.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 2, 2005

**ISLE OF CAPRI CASINOS, INC.**

/s/ Rexford A. Yeisley

---

Rexford A. Yeisley, Chief Financial Officer  
(Principal Financial and Accounting Officer)



**INDEX TO EXHIBITS**

**EXHIBIT NUMBER DESCRIPTION**

3.1A	Certificate of Incorporation of Casino America, Inc. (1)
3.1B	Amendment to Certificate of Incorporation of Casino America, Inc. (2)
3.2A	By-laws of Casino America, Inc. (1)
3.2B	Amendments to By-laws of Casino America, Inc., dated February 7, 1997 (3)
4.3	Indenture, dated as of March 3, 2004, among Isle of Capri Casinos, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as Trustee (4)
4.4	Registration Rights Agreement, dated as of March 3, 2004, among Isle of Capri Casinos, Inc., the subsidiary guarantors named therein and Deutsche Bank Securities Inc. and CIBC World Markets Corp. on behalf of themselves and as representatives of the other initial purchasers (4)
4.5	Indenture, dated as of March 27, 2002 among Isle of Capri Casinos, Inc., the subsidiary guarantors named therein and State Street Bank and Trust Company, as trustee (5)
4.8	Rights Agreement, dated as of February 7, 1997, between Casino America, Inc. and Norwest Bank Minnesota, N.A., as rights agent (6)
10.1	Casino America, Inc. description of Employee Bonus Plan (7)
10.2	Director s Option Plan (8)
10.3	Biloxi Waterfront Project Lease dated as of April 9, 1994 by and between the City of Biloxi, Mississippi and Riverboat Corporation of Mississippi (9)
10.4	First Amendment to Biloxi Waterfront Project Lease (Hotel Lease), dated as of April 26, 1995, by and between Riverboat Corporation of Mississippi (10)
10.5	Amended and Restated Lease, dated as of April 19, 1999, among Port Resources, Inc. and CRU, Inc., as landlords and St. Charles Gaming Company, Inc., as tenant (11)
10.6	Amended Casino America, Inc. 1992 Stock Option Plan (12)
10.7	Amended Casino America, Inc. 1993 Stock Option Plan (13)
10.8	Lease of property in Coahoma, Mississippi dated as of November 16, 1993 by and among Roger Allen Johnson, Jr., Charles Bryant Johnson and Magnolia Lady, Inc. (5)
10.9	Addendum to Lease dated as of June 22, 1994 by and among Roger Allen Johnson, Jr., Charles Bryant Johnson and Magnolia Lady, Inc. (14)
10.10	Second addendum to Lease dated as of October 17, 1995 by and among Roger Allen Johnson, Jr., Charles Bryant Johnson and Magnolia Lady, Inc. (14)
10.11	Amended and Restated Operating Agreement of Isle of Capri Black Hawk, L.L.C., dated as of July 29, 1997, between Casino America of Colorado, Inc. and Blackhawk Gold, Ltd. as amended (5)
10.12	Development Agreement dated as of June 17, 1997, between City of Bettendorf, Lady Luck Bettendorf, Lady Luck Quad Cities, Inc. and Bettendorf Riverboat Development, LC (5)

**INDEX TO EXHIBITS (continued)**

- 10.13 Operator s Contract, dated as of December 28, 1989, between Riverboat Development Authority and the Connelley Group, LP, as amended on February 9, 1990, March 1, 1990, January 1, 1991, September 30, 1994 and March 1, 1998 (5)
- 10.14 Isle of Capri Casinos, Inc. 2000 Long-Term Stock Incentive Plan (15)
- 10.15 Isle of Capri Casinos, Inc. Deferred Bonus Plan (15)
- 10.16 Employment Agreement dated as of January 1, 2002 between Isle of Capri Casinos, Inc. and Allan B. Solomon (5)
- 10.17 Employment Agreement dated as of January 1, 2002 between Isle of Capri Casinos, Inc. and Rexford A. Yeisley (5)
- 10.18 Employment Agreement dated as of January 1, 2002 between Isle of Capri Casinos, Inc. and Timothy M. Hinkley (5)
- 10.19 Employment Agreement dated as of January 1, 2002 between Isle of Capri Casinos, Inc. and Bernard Goldstein (5)
- 10.20 Employment Agreement dated as of July 1, 2003 between Isle of Capri Casinos, Inc. and Thomas J. Carr (16)
- 10.21 Third Amended and Restated Credit Agreement, dated as of February 4, 2005, among Isle of Capri Casinos, Inc., the lenders listed therein, Canadian Imperial Bank of Commerce, as administrative agent and issuing lender, Deutsche Bank Trust Company Americas and Wells Fargo Bank, N.A., as co-syndication agents, Calyon New York Branch and the CIT/Group/Equipment Financing, Inc., as co-documentation agents and CIBC World Markets Corp., as lead arranger (17)
- 10.22 Isle of Capri Casinos, Inc. s 2005 Deferred Compensation Plan (18)
- 10.23 Isle of Capri Casinos, Inc. s 1995 Deferred Compensation Plan (18)
- 10.24 Isle of Capri Casinos, Inc. s 2005 Non-employee Director Deferred Compensation Plan (18)
- 10.25 Employment Agreement dated as of January 1, 2005 between Isle of Capri Casinos, Inc. and Robert F. Griffin (18)
- 10.26 Isle of Capri Casinos, Inc. Master Retirement Plan (16)
- 10.27 First Amended and Restated Credit Agreement, dated as of April 22, 2003, by and among Isle of Capri Black Hawk, L.L.C., Canadian Imperial Bank of Commerce, as administrative agent, the agents named therein and certain other lenders party from time to time thereto (16)
- 10.28 First Amendment to First Amended and Restated Credit Agreement, dated as of February 6, 2004, by and among Isle of Capri Black Hawk, L.L.C., Canadian Imperial Bank of Commerce, as administrative agent, the credit support parties named therein and certain other lenders party from time to time thereto (16)
- 10.29 Second Amendment to First Amended and Restated Credit Agreement, dated as of July 26, 2004, by and among Isle of Capri Black Hawk, L.L.C., Canadian Imperial Bank of Commerce, as administrative agent, the credit support parties named therein and certain other lenders party from time to time thereto (16)

**INDEX TO EXHIBITS (continued)**

- 10.30 Third Amendment to First Amended and Restated Credit Agreement, dated as of April 22, 2005, by and among Isle of Capri Black Hawk, L.L.C., Canadian Imperial Bank of Commerce, as administrative agent, the credit support parties named therein and certain other lenders party from time to time thereto (19)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, filed under Exhibit 31 of Item 601 of Regulation S-K.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, filed under Exhibit 31 of Item 601 of Regulation S-K.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) filed under Exhibit 32 of Item 601 of Regulation S-K.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) filed under Exhibit 32 of Item 601 of Regulation S-K.
- (1) Filed as an exhibit to Casino America, Inc. s Registration Statement on Form S-1 filed September 3, 1993, as amended (Reg. No. 33-68434), and incorporated herein by reference.
- (2) Filed as an exhibit to Casino America, Inc. s Proxy Statement for the fiscal year ended April 26, 1998 (File No. 0-20538) and incorporated herein by reference.
- (3) Filed as an exhibit to Isle of Capri Casinos, Inc. s Annual Report on Form 10-K for the fiscal year ended April 27, 1997 (File No. 0-20538) and incorporated herein by reference.
- (4) Filed as an exhibit to Isle of Capri Casinos, Inc. s Registration Statement on Form S-4 filed on May 12, 2004 (File No. 333-115419) and incorporated herein by reference.
- (5) Filed as an exhibit to Isle of Capri Casinos, Inc. s Amendment No. 1 to Registration Statement on Form S-4 filed on June 19, 2002 (File No. 333-88802) and incorporated herein by reference.
- (6) Filed as an exhibit to Casino America, Inc. s Current Report on Form 8-K filed on February 14, 1997 (File No. 0-20538) and incorporated herein by reference.
- (7) Filed as an exhibit to Casino America, Inc. s Annual Report on form 10-K for the fiscal year ended April 30, 1993 (File No. 0-20538) and incorporated herein by reference.
- (8) Filed as an exhibit to Casino America, Inc. s Registration Statement on Form S-8 filed June 30, 1994 (File No. 33-80918) and incorporated herein by reference.
- (9) Filed as an exhibit to Casino America, Inc. s Annual Report on Form 10-K for fiscal year ended April 30, 1994 (File No. 0-20538) and incorporated herein by reference.

**INDEX TO EXHIBITS (continued)**

- (10) Filed as an exhibit to Casino America, Inc. s Annual Report on Form 10-K for fiscal year ended April 30, 1995 (File No. 0-20538) and incorporated herein by reference.
- (11) Filed as an exhibit to Isle of Capri Casinos, Inc. s Annual Report on Form 10-K for the fiscal year ended April 25, 1999 (File No. 0-20538) and incorporated herein by reference.
- (12) Filed as an exhibit to Casino America, Inc. s Proxy Statement for the fiscal year ended April 30, 1996 (File No. 0-20538) and incorporated herein by reference.
- (13) Filed as an exhibit to Casino America, Inc. s Proxy Statement for the fiscal year ended April 27, 1997 (File No. 0-20538) and incorporated herein by reference.
- (14) Filed as an exhibit to Isle of Capri Casinos, Inc. s Annual Report on Form 10-K for the fiscal year ended April 30, 2000 (File No. 0-20538) and incorporated herein by reference.
- (15) Filed as an exhibit to Isle of Capri Casinos, Inc. s Proxy Statement for the fiscal year ended April 30, 2000 (File No. 0-20538) and incorporated herein by reference.
- (16) Filed as an exhibit to Isle of Capri Casinos, Inc. s Annual Report on Form 10-K for the fiscal year ended April 24, 2005 (File No. 0-20538) and incorporated herein by reference.
- (17) Filed as an exhibit to Isle of Capri Casinos, Inc. s Current Report on Form 8-K filed on February 10, 2005 (File No. 0-20538) and incorporated herein by reference.
- (18) Filed as an exhibit to Isle of Capri Casinos, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended January 23, 2005 (File No. 0-20538) and incorporated herein by reference.
- (19) Filed as an exhibit to Isle of Capri Casino, Inc. s Current Report on Form 8-K filed on April 28, 2005 (File No. 0-20538) and incorporated herein by reference.