

ISLE OF CAPRI CASINOS INC
Form 10-Q
March 03, 2006

**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 January 22, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

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

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

**1641 Popp's Ferry Road, Biloxi, Mississippi
(Address of principal executive offices)**

**39532
(Zip Code)**

Registrant's telephone number, including area code: (228) 396-7000

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

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of February 27, 2006 the Company had a total of 34,024,141 shares of Common Stock outstanding (which includes 3,902,423 shares held by us in treasury).

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

All statements other than statements of historical or current facts included in this report on Form 10-Q or incorporated by reference herein, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe” or “continue” or the negative thereof or variations thereof 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 changes in gaming taxes;
 - the effects of changes in non-gaming regulations;
 - loss of key personnel;
 - the impact of inclement weather on our patronage;
 - the timing and amount of collection of insurance receivables;
- 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 U.S. and international venues in which we operate or are pursuing development opportunities.

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.

Index**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except per share data)

<u>ASSETS</u>	January 22, 2006	April 24, 2005
Current assets:		
Cash and cash equivalents	\$ 107,804	\$ 146,743
Marketable securities	19,137	16,016
Accounts receivable, net	17,815	15,460
Insurance receivable, net	81,622	-
Deferred Income Taxes	9,669	9,595
Prepaid expenses and other assets	20,316	16,634
Total current assets	256,363	204,448
Property and equipment, net	1,070,796	1,026,906
Other assets:		
Goodwill	340,240	343,851
Other intangible assets	92,829	72,364
Deferred financing costs, net	16,812	19,461
Restricted cash	2,208	2,193
Prepaid deposits and other	29,558	15,665
Total assets	\$ 1,808,806	\$ 1,684,888
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 8,174	\$ 7,501
Accounts payable	52,696	42,456
Accrued liabilities:		
Interest	24,351	10,312
Payroll and related	50,519	47,806
Property and other taxes	22,428	21,061
Income taxes	7,711	1,160
Progressive jackpots and slot club awards	14,686	15,045
Other	44,440	34,321
Total current liabilities	225,005	179,662
Long-term debt, less current maturities	1,222,439	1,148,617
Deferred Income Taxes	52,952	54,873
Other accrued liabilities	23,015	17,115
Minority interest	25,439	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: 33,957 at January 22, 2006 and 33,528 at April 24, 2005	339	335
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued	-	-
Additional paid-in capital	153,870	148,177

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Unearned compensation	(1,521)	(1,488)
Retained earnings	150,031	146,133
Accumulated other comprehensive income (loss)	(607)	2,858
	302,112	296,015
Treasury stock, 3,902 shares at January 22, 2006 and 3,607 shares at April 24, 2005	(42,156)	(34,619)
Total stockholders' equity	259,956	261,396
Total liabilities and stockholders' equity	\$ 1,808,806	\$ 1,684,888

See notes to the unaudited consolidated financial statements.

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ISLE OF CAPRI CASINOS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	January 22, 2006	January 23, 2005	January 22, 2006	January 23, 2005
Revenues:				
Casino	\$ 276,987	\$ 266,700	\$ 813,418	\$ 822,344
Rooms	9,853	10,509	37,056	35,721
Pari-mutuel commissions and fees	4,350	5,210	13,301	13,011
Food, beverage and other	32,947	36,511	103,842	108,951
Gross revenues	324,137	318,930	967,617	980,027
Less promotional allowances	54,288	53,504	168,292	168,110
Net revenues	269,849	265,426	799,325	811,917
Operating expenses:				
Casino	42,529	46,252	129,838	138,090
Gaming taxes	61,239	59,576	180,382	184,146
Rooms	1,851	2,195	7,802	7,609
Pari-mutuel	3,432	3,982	10,548	10,201
Food, beverage and other	7,790	8,618	25,150	26,403
Marine and facilities	16,183	16,798	50,282	50,064
Marketing and administrative	74,808	74,908	238,201	233,672
Other charges	40	1,621	224	1,868
Hurricane related charges, net	3,759	-	4,959	-
Depreciation and amortization	25,385	23,511	76,037	72,757
Total operating expenses	237,016	237,461	723,423	724,810
Operating income	32,833	27,965	75,902	87,107
Interest expense	(21,860)	(18,991)	(63,464)	(56,017)
Interest income	894	528	3,060	1,202
Loss on Extinguishment of Debt	(2,110)	-	(2,110)	-
Minority interest	(440)	(1,440)	(4,387)	(5,122)
Income from continuing operations before income taxes	9,317	8,062	9,001	27,170
Income tax expense	5,184	4,568	5,045	13,243
Income from continuing operations	4,133	3,494	3,956	13,927
Income (loss) from discontinued operations, net of income taxes	-	36	(58)	660
Net income	\$ 4,133	\$ 3,530	\$ 3,898	\$ 14,587

Earnings per common share-basic:

Income from continuing operations	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.47
Income from discontinued operations, net of income taxes	-	-	-	0.02
Net income	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.49

Earnings per common share-diluted:

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Income from continuing operations	\$	0.13	\$	0.11	\$	0.13	\$	0.45
Income (loss) from discontinued operations, net of income taxes		-		-		(0.01)		0.02
Net income	\$	0.13	\$	0.11	\$	0.12	\$	0.47

See notes to the unaudited consolidated financial statements.

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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 Compre- hensive 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	-	-	-	-	3,898	-	-	3,898
Unrealized gain on interest rate swap contracts net of income taxes of \$185	-	-	-	-	-	278	-	278
Foreign currency translation adjustments	-	-	-	-	-	(3,743)	-	(3,743)
Comprehensive income	-	-	-	-	-	-	-	433
Exercise of stock options, including income tax benefit of \$1,242	429	4	5,325	-	-	-	957	6,286
Purchase of treasury stock	-	-	-	-	-	-	(8,494)	(8,494)
Grant of nonvested stock	-	-	368	(368)	-	-	-	-
Amortization of unearned compensation	-	-	-	335	-	-	-	335
Balance, January 22, 2006	33,957	\$ 339	\$ 153,870	\$ (1,521)	\$ 150,031	\$ (607)	\$ (42,156)	\$ 259,956

See notes to the unaudited consolidated financial statements.

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

	Nine Months Ended	
	January 22, 2006	January 23, 2005
Operating activities:		
Net income	\$ 3,898	\$ 14,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,037	73,082
Valuation charge	-	1,621
Amortization of deferred financing costs	2,320	3,091
Amortization of unearned compensation	335	371
Loss on early extinguishment of debt	2,110	-
Deferred income taxes	(2,212)	-
Tax benefit of stock option exercise	1,242	623
Minority interest	4,387	5,122
Impairment charges	55,184	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,108)	(1,903)
Insurance receivable	(81,622)	-
Income tax payable	6,551	12,094
Prepaid expenses and other assets	(3,753)	(2,741)
Accounts payable and accrued liabilities	7,291	27,552
Net cash provided by operating activities	68,660	133,499
Investing activities:		
Purchase of property and equipment	(157,458)	(142,731)
Acquisition of license	(5,775)	-
Purchase of short-term investments, net of sales	(2,901)	-
Changes on notes receivable	21	(6,055)
Restricted cash	(173)	(280)
Prepaid deposits and other	(10,729)	(485)
Net cash used in investing activities	(177,015)	(149,551)
Financing activities:		
Proceeds from debt	122,475	3,071
Net increase on line of credit	2,524	14,282
Principal payments on debt and cash paid to retire debt	(49,609)	(4,831)
Payment of deferred financing costs	(1,792)	(692)
Purchase of treasury stock	(8,493)	(6,360)
Proceeds from exercise of stock options	5,044	2,270
Cash distributions to minority partner	-	(3,600)
Net cash provided by financing activities	70,149	4,140
Effect of foreign currency exchange rates on cash	(733)	83

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Net decrease in cash and cash equivalents	(38,939)	(11,829)
Cash and cash equivalents at beginning of period	146,743	134,582
Cash and cash equivalents at end of period	\$ 107,804	\$ 122,753

See notes to the unaudited consolidated financial statements.

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

	Nine Months Ended	
	January 22, 2006	January 23, 2005
Supplemental disclosure of cash flow information:		
Net cash payments for:		
Interest	\$ 50,731	\$ 41,858
Income taxes	(545)	419
Supplemental schedule of noncash investing and financing activities:		
Other:		
Construction costs funded through accrued liabilities	19,552	8,304
Acquisition of license	16,000	-

See notes to the unaudited consolidated financial statements.

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

1. 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 from Isle of Capri Black Hawk, L.L.C. 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, a two-thirds ownership interest in Blue Chip Casinos, PLC (“Blue Chip”) which owns casinos in Dudley, Wolverhampton and Walsall, England and a casino to be opened in Coventry, England in the latter part of calendar 2006. 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 May 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 \$134.5 million (including \$20.0 million in license costs) in constructing a 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.

In December 2005, the Company signed a joint development agreement with Lemieux Group LP that includes a provision for Isle to fund a \$290 million new multi-purpose arena and pursue a gaming license for 3,000 slot machines in Pittsburgh, Pennsylvania. The new multi-purpose arena and gaming facility are part of a larger billion-dollar effort known as Pittsburgh First to redevelop the Lower Hill and Uptown Districts in conjunction with the Pittsburgh Penguins and a development partner. This proposal is one of three applications under consideration by the Pennsylvania Gaming Control Board for a single license with a decision expected by the end of calendar 2006 or early 2007. If the license is granted to the Isle of Capri, the Company anticipates that the construction of the project would begin shortly thereafter with a temporary casino also a possibility.

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 and nine months ended January 22, 2006 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.

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 weekend days (26) in each fiscal quarter. Periodically, this system necessitates a 53-week year. Fiscal 2006 commenced on April 25, 2005 and ends on April 30, 2006.

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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 for interim periods beginning in the first 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.

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.

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 Company recognizes a tax benefit from the exercise of certain stock options. 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.

Index**3. Stock-Based Compensation (continued)**

	Three Months Ended		Nine Months Ended	
	January 22, 2006	January 23, 2005	January 22, 2006	January 23, 2005
	(In thousands, except per share data)			
Income from continuing operations	\$ 4,133	\$ 3,494	\$ 3,956	\$ 13,927
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(761)	(1,133)	(2,902)	(3,004)
Pro forma Income before discontinued operations	\$ 3,372	\$ 2,361	\$ 1,054	\$ 10,923
Income (loss) from discontinued operations	\$ -	\$ 36	\$ (58)	\$ 660
Pro forma Net Income after discontinued operations	\$ 3,372	\$ 2,397	\$ 996	\$ 11,583
Earnings per share: Basic				
As Reported				
Income from continuing operations	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.47
Income (loss) from discontinued operations	\$ -	\$ -	\$ -	\$ 0.02
Net Income	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.49
Earnings per share: Basic Pro Forma				
Income from continuing operations	\$ 0.11	\$ 0.08	\$ 0.04	\$ 0.37
Income (loss) from discontinued operations	\$ -	\$ -	\$ (0.01)	\$ 0.02
Net Income	\$ 0.11	\$ 0.08	\$ 0.03	\$ 0.39
Earnings per share: Diluted				
As Reported				
Income from continuing operations	\$ 0.13	\$ 0.11	\$ 0.13	\$ 0.45
Income (loss) from discontinued operations	\$ -	\$ -	\$ (0.01)	\$ 0.02
Net Income	\$ 0.13	\$ 0.11	\$ 0.12	\$ 0.47
Earnings per share: Diluted Pro Forma				
Income from continuing operations	\$ 0.11	\$ 0.08	\$ 0.03	\$ 0.35
Income from discontinued operations	\$ -	\$ -	\$ -	\$ 0.02
Net Income	\$ 0.11	\$ 0.08	\$ 0.03	\$ 0.38

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:

Risk-Free	Original	Expected	Expected
------------------	-----------------	-----------------	-----------------

Fiscal Quarter	Interest Rate	Expected Life	Volatility	Dividends
January 22, 2006	4.00%	6.26 years	55.8%	None
January 23, 2005	3.97%	6.38 years	55.5%	None

Additionally, under the Company's Deferred Bonus Plan the Company issues non-vested options to eligible officers and employees who agree to receive a deferred bonus in the form of non-vested stock. The Company amortizes the fair value of the non-vested stock ratably over the vesting period.

Index**4. Hurricanes and Related Charges**

On August 29, 2005, Hurricane Katrina struck the Gulf Coast of Mississippi and Louisiana, which resulted in significant damage to the Company's casino facility and its casino barge under construction in Biloxi, Mississippi. On December 26, 2005 the Company opened a casino in the hotel with 730 slot machines, a live poker room, 27 table games, three restaurants and 525 hotel rooms. Subsequent to the end of the quarter, Isle-Biloxi added an additional 220 slot machines and a European spa.

On September 22, 2005, Hurricane Rita struck the Gulf Coast of Louisiana and Texas, which caused damage to the casino and hotel facilities in Lake Charles, Louisiana. The property was closed for 16 days as a result but subsequently reopened on October 8, 2005.

On October 24, 2005, Hurricane Wilma struck Florida, causing damage to the Company's Pompano Park racing facility. The Property was closed until December 2, 2005.

The Company initially took an impairment charge of \$60.1 million based on initial assessments of damages. After further review of the damaged and destroyed property the Company determined that some of the property could be repaired and used in the future. The impairment charges related to the hurricanes were reduced by \$4.9 million for a total of \$55.2 million during the quarter ended January 22, 2006. The impairment charge was offset by an insurance receivable for the amount the Company expects to recover from its insurance carriers. The Company has incurred \$57.5 million for incremental out-of-pocket costs related to the hurricanes and the property operating costs related to the periods affected by the hurricanes. These amounts are included in the "hurricane related charges, net" in the accompanying statements of income. The Company has insurance coverage related to property damage, incremental costs and property operating expenses it incurs due to damage caused by the hurricanes. The "hurricane related charges, net" account also includes the total anticipated recoveries expected from its insurance carriers of \$107.7 million related to the impairments recognized related to the damaged property, the incremental costs and property operating expenses that management believes are probable of collection. The Company has received \$26.1 million in advance payments from its insurance carriers. When the Company and its insurance carriers agree on the final amount of the insurance proceeds the Company is entitled to, the Company will also record any related gain in this account. The Company's insurance policies also provide coverage for the loss of profits caused by the storms. Any lost profit recoveries will be recognized when agreed to with the insurance carrier and will be reflected in the related properties' revenues. The following table shows the activity flowing through the insurance accounts:

	Items Incurred Through October 23, 2005	Activity	Items Incurred Through January 22, 2006
Property Impairment	60,051	(4,866)	55,185
Incremental Costs Incurred	23,845	33,635	57,484
Hurricane Related Charges	(1,200)	(3,759)	(4,959)
Insurance Receivable, Gross	82,696		107,710
Insurance Receipts	(12,500)	(13,588)	(26,088)
Insurance Receivable, Net	70,196		81,622

5. Goodwill and Other Intangible Assets

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

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Balance at April 24, 2005	\$ 343,851
Sale of Colorado Grande Enterprises, Inc	(2,897)
Foreign currency translation	(714)
Balance at January 22, 2006	\$ 340,240

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Other intangible assets consist of the following:

	January 22, 2006	April 24, 2005
Gaming licenses	\$ 75,143	\$ 53,379
Trademarks and player database	17,686	18,985
Other intangible assets, net	\$ 92,829	\$ 72,364

During the nine months ended January 22, 2006, the Company incurred \$21.2 million of gaming license related fees for our Waterloo, Iowa project and \$0.6 million of gaming license fees related to the Pompano, Florida project.

6. 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 January 22, 2006 and April 24, 2005.

	January 22, 2006	April 24, 2005
Long-term debt consists of the following:	(In thousands)	
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	297,250	249,375
Revolver	10,000	-
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below)		
Variable rate term loan Tranche C	189,525	163,350
Revolver	18,000	26,000
Isle-Black Hawk Special Assessment BID Bonds, non-recourse to Isle of Capri Casinos, Inc. (described below)	532	590
Blue Chip Credit Facility (6.50% at July 24, 2005) due January 2009; non-recourse to Isle of Capri Casinos, Inc. (described below)	6,579	6,942
Variable rate TIF Bonds due to City of Bettendorf (described below)	3,511	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	-	494
Other	3,541	3,662
	1,230,613	1,156,118
Less current maturities	8,174	7,501
Long-term debt	\$ 1,222,439	\$ 1,148,617

Index**6. 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%

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.

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 Colorado 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%

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.

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6. 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). On August 3, 2005, the Company exercised its option for a delayed draw term loan for an additional \$50.0 million. The draw was accessed in anticipation of funding the Company's ongoing development projects. 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 has been and will be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditures and investments.

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. As of January 22, 2006, the Company was in compliance with all covenants related to this facility.

The weighted average effective interest rate of total debt outstanding under the senior secured credit facility at January 22, 2006 was 6.28%.

At January 22, 2006, the Company had \$297.3 million outstanding under the senior secured term loan credit facilities and no amounts outstanding under the revolving credit facility.

Isle-Black Hawk Senior Secured Credit Facility

On October 24, 2005, Isle of Capri Black Hawk, L.L.C., a joint venture company that owns and operates two casinos in Black Hawk, Colorado is owned 57% by Isle of Capri Casinos, Inc. and 43% by a subsidiary of Nevada Gold & Casinos, Inc., entered into a \$240.0 million Second Amended and Restated Credit Agreement. The credit agreement, which amends and restates the Isle of Capri Black Hawk, L.L.C.'s existing credit agreement in its entirety, provides for a \$50.0 million revolving credit facility maturing the earlier of October 24, 2010 or such date as the term loan facility is repaid in full and a \$190.0 million term loan facility maturing on October 24, 2011. At the Isle of Capri Black Hawk, L.L.C.'s and the lead arranger's mutual discretion, Isle of Capri Black Hawk, L.L.C. may increase the size of the revolver and/or term loan facility, in an aggregate amount up to \$25.0 million subject to certain conditions. The term loans are payable in quarterly installments beginning on December 30, 2005 and ending on September 30, 2011. The revolving loans may bear interest at the Isle of Capri Black Hawk, L.L.C.'s option at (1) the higher of 0.5% in excess of the federal funds effective rate plus an applicable margin up to 1.25% or the rate that the lead arranger announces from time to time as its prime lending rate plus an applicable margin up to 1.25% or (2) a rate tied to a LIBOR rate plus an applicable margin up to 2.25%. The term loans may bear interest at the Isle of Capri Black Hawk, L.L.C.'s

option at (1) the higher of 0.5% in excess of the federal funds effective rate plus an applicable margin of 1.00% or the rate that the lead arranger announces from time to time as its prime lending rate plus an applicable margin of 1.00% or (2) a rate tied to a LIBOR rate plus an applicable margin of 2.00%. The credit agreement is secured by liens on substantially all of the Isle of Capri Black Hawk, L.L.C.'s assets. The credit agreement contains customary representations and warranties and affirmative and negative covenants and is non-recourse to the Company. Pursuant to the refinancing, the Company recognized a loss before income taxes on early extinguishment of debt of \$2.1 million, due to the write-off of previously deferred financing costs related to its existing senior secured credit facility. The costs of \$1.8 million associated with the new senior secured credit facility have been deferred and are being amortized over the term of the new facility.

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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 January 22, 2006. 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 January 22, 2006 was 6.22%.

6. Long-Term Debt (continued)

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 January 22, 2006. 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 January 22, 2006. Accordingly, no gains or losses have been recognized on these cash flow hedges.

At January 22, 2006, 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 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.

Blue Chip Credit Facility

In 2004, Blue Chip entered into an agreement with the Bank of Scotland to borrow up to £3.4 million (\$6.0 million) to fund its casino development program. As of January 22, 2006, £2.9 million (\$5.2 million) has been borrowed. The term loan is being repaid in quarterly payments, and is to be repaid in full by January 2009. As of January 22, 2006, the amount available to be borrowed is £0.2 million (\$0.4 million). 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, Iowa 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.

Index**6. Long-Term Debt (continued)****Rhythm City - Davenport General Obligation Bonds**

In 2002, the Rhythm City-Davenport entered into an agreement with the City of Davenport, Iowa whereby the City of Davenport would construct and own a skybridge connecting to the Rhythm City-Davenport's facility, allowing safer access across the street and railroad tracks. The project has been completed by the City of Davenport and at a cost of \$6.4 million, with the Rhythm City-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 Rhythm City-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 January 22, 2006, the Company had \$358.9 million of availability under its lines of credit and available term debt as compared to \$452.8 million at April 24, 2005. Item 2, Liquidity and Capital Resources, discusses this in further detail.

7. Comprehensive Income

Comprehensive income consists of the following:

	Unrealized gain on interest rate swaps (In thousands)	Foreign currency translation adjustment	Accumulated other comprehensive income (loss)
Balance, April 24, 2005	\$ 105	\$ 2,753	\$ 2,858
Net change	278	(3,743)	(3,465)
Balance, January 22, 2006	\$ 383	\$ (990)	\$ (607)

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 \$1.0 million, and is recorded as a current asset. There was no effect on income related to hedge ineffectiveness.

8. Contingencies

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 \$7.9 million as of January 22, 2006 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. During October 2005, the Administrative Supreme Court remanded the matter back to the Athens Administrative Appeals Court for a hearing on the merits, which is expected to take place at the end of 2006 or early 2007. The civil matter is set for hearing before the Greek Supreme Court during May 2006.

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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.

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.

Index**9. Earnings per Share of Common Stock**

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

	Three Months Ended		Nine Months Ended	
	January 22, 2006	January 23, 2005	January 22, 2006	January 23, 2005
	(In thousands, except per share data)			
Numerator:				
Net income	\$ 4,133	\$ 3,530	\$ 3,898	\$ 14,587
Numerator for basic earnings per share - income available to common stockholders	\$ 4,133	\$ 3,530	\$ 3,898	\$ 14,587
Effect of diluted securities	-	-	-	-
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions	\$ 4,133	\$ 3,530	\$ 3,898	\$ 14,587
Denominator:				
Denominator for basic earnings per share - weighted - average shares	29,951	29,675	30,054	29,632
Effect of dilutive securities				
Employee stock options and nonvested restricted stock	1,091	1,362	1,238	1,144
Denominator for diluted earnings per share - adjusted weighted - average shares and assumed conversions	31,042	31,037	31,292	30,776