

ISLE OF CAPRI CASINOS INC
Form 10-Q
August 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended July 25, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

Delaware

41-1659606

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification Number)

1641 Popp's Ferry Road, Biloxi, Mississippi

39532

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(228) 396-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

As of August 17, 2004 the Company had a total of 29,522,196 shares of Common Stock outstanding (which excludes 3,614,700 shares held by us in treasury).

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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

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use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative variations thereon or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

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

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

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

<u>ASSETS</u>	<u>July 25, 2004</u>	<u>April 25, 2004</u>
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 151,024	\$ 134,582
Accounts receivable	11,755	10,427
Income tax receivable	-	2,860
Deferred income taxes	11,139	11,283
Prepaid expenses and other assets	23,800	16,169
	<u>197,718</u>	<u>175,321</u>
Total current assets	197,718	175,321
Property and equipment, net	914,824	907,460
Other assets:		
Goodwill	334,015	333,780
Other intangible assets	72,358	72,349
Deferred financing costs, net	22,609	23,340
Restricted cash	2,541	2,482
Prepaid deposits and other	8,787	9,303
	<u>8,787</u>	<u>9,303</u>
Total assets	<u>\$ 1,552,852</u>	<u>\$ 1,524,035</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 8,854	\$ 8,040
Accounts payable trade	19,205	21,725
Accrued liabilities:		
Interest	22,819	10,311
Payroll and related	44,777	45,588
Property and other taxes	19,994	17,167
Income taxes	4,689	-

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Progressive jackpots and slot club awards	15,932	14,828
Other	24,683	21,856
	<u> </u>	<u> </u>
Total current liabilities	160,953	139,515
Long-term debt, less current maturities	1,081,115	1,080,824
Deferred income taxes	21,789	21,825
Deferred state income taxes	8,191	8,191
Other accrued liabilities	12,491	12,091
Minority interest	21,579	20,183
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000 shares authorized; none issued	-	-
Common stock, \$.01 par value; 45,000 shares authorized; shares issued and outstanding: 33,128 at July 25, 2004 and 33,055 at April 25, 2004	331	330
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued	-	-
Additional paid-in capital	143,124	143,385
Unearned compensation	(2,166)	(1,413)
Retained earnings	138,704	128,095
Accumulated other comprehensive income	1,174	521
	<u> </u>	<u> </u>
	281,167	270,918
Treasury stock, 3,615 shares at July 25, 2004 and 3,338 shares at April 25, 2004	(34,433)	(29,512)
	<u> </u>	<u> </u>
Total stockholders' equity	246,734	241,406
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 1,552,852	\$ 1,524,035
	<u> </u>	<u> </u>

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	
	July 25, 2004	July 27, 2003
	<u> </u>	<u> </u>
Revenues:		
Casino	\$ 284,195	\$ 288,783
Rooms	12,925	11,860
Pari-mutuel commissions and fees	4,439	4,718
Food, beverage and other	36,681	37,657
	<u> </u>	<u> </u>
Gross revenues	338,240	343,018

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Less promotional allowances	57,368	57,267
Net revenues	280,872	285,751
Operating expenses:		
Casino	45,662	46,419
Gaming taxes	62,944	62,219
Rooms	2,838	2,572
Pari-mutuel	3,470	3,481
Food, beverage and other	9,346	8,571
Marine and facilities	17,131	16,080
Marketing and administrative	78,929	78,717
Preopening	55	291
Depreciation and amortization	23,623	21,617
Total operating expenses	243,998	239,967
Operating income	36,874	45,784
Interest expense, net	(17,400)	(21,098)
Minority interest	(2,133)	(2,833)
Income before income taxes	17,341	21,853
Income taxes	6,732	8,301
Net income	\$ 10,609	\$ 13,552
Net income per common share-basic	\$ 0.36	\$ 0.46
Net income per common share-diluted	\$ 0.35	\$ 0.45
Weighted average basic shares	29,686	29,146
Weighted average diluted shares	30,749	30,355

See notes to the unaudited consolidated financial statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compen- sation	Retained Earnings	Accumulated Other Compre- hensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, April 25, 2004	33,055	\$ 330	\$ 143,385	\$ (1,413)	\$ 128,095	\$ 521	\$ (29,512)	\$ 241,406

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Net income	-	-	-	-	10,609	-	-	10,609
Unrealized gain on interest								
rate swap contracts	-	-	-	-	-	172	-	172
Foreign currency translation								
adjustments	-	-	-	-	-	481	-	481
Comprehensive income, net								
of income taxes	-	-	-	-	-	-	-	11,262
Exercise of stock options	73	1	(1,160)	-	-	-	1,439	280
Purchase of treasury stock	-	-	-	-	-	-	(6,360)	(6,360)
Grant of nonvested stock	-	-	899	(899)	-	-	-	-
Amortization of unearned								
compensation	-	-	-	146	-	-	-	146
Balance, July 25, 2004	33,128	\$ 331	\$ 143,124	\$ (2,166)	\$ 138,704	\$ 1,174	\$ (34,433)	\$ 246,734

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)

	Three Months Ended	
	July 25, 2004	July 27, 2003
Operating activities:		
Net income	\$ 10,609	\$ 13,552
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	23,623	21,617
Amortization of deferred financing costs	1,008	1,074
Amortization of unearned compensation	146	187
Minority interest	2,133	2,833
Changes in operating assets and liabilities:		
Accounts receivable	(1,310)	265
Income tax payable	7,549	-
Prepaid expenses and other assets	(7,950)	(6,429)
Accounts payable and accrued liabilities	14,643	27,344
Net cash provided by operating activities	50,451	60,443

Investing activities:		
Purchase of property and equipment, net	(28,429)	(29,424)
Proceeds from notes receivable	-	5,344
Net cash paid for acquisitions	-	(878)
Sale of short-term investments	-	1,991
Restricted cash	117	89
Other	831	408
	<u> </u>	<u> </u>
Net cash used in investing activities	(27,481)	(22,470)
Financing activities:		
Proceeds from debt	2,502	-
Net reduction in line of credit	-	(5,915)
Principal payments on debt	(1,520)	(3,976)
Deferred financing costs	(273)	(68)
Repurchase of treasury stock	(6,360)	-
Proceeds from exercise of stock options	280	265
Cash distribution to minority partner	(1,185)	(404)
	<u> </u>	<u> </u>
Net cash used in financing activities	(6,556)	(10,098)
Effect of foreign currency exchange rates on cash	28	-
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	16,442	27,875
Cash and cash equivalents at beginning of period	134,582	80,639
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	<u>\$ 151,024</u>	<u>\$ 108,514</u>

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)

	Three Months Ended	
	July 25, 2004	July 27, 2003
Supplemental disclosure of cash flow information:		
Net cash payments for:		
Interest	\$ 4,597	\$ 6,726
Income taxes	(1,072)	522
Supplemental schedule of noncash investing and financing activities:		

Other:

Construction costs funded through accrued liabilities	1,124	-
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See notes to the unaudited consolidated financial statements.

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

1. Summary of Significant Accounting Policies**Basis of Presentation**

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

Fiscal Year-End

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

Interim Financial Information

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended July 25, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending April 24, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended April 25, 2004.

Reclassification

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

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

2. Stock-Based Compensation

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

Accounting for Stock-Based Compensation (SFAS 123) amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148), to stock-based employee compensation.

	Three Months Ended	
	July 25, 2004	July 27, 2003
	(In thousands, except per share data)	
Net income, as reported	\$ 10,609	\$ 13,552
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(971)	(711)
Pro forma net income	\$ 9,638	\$ 12,841
Earnings per common share:		
Basic - as reported	\$ 0.36	\$ 0.46
Basic - pro forma	\$ 0.32	\$ 0.44
Diluted - as reported	\$ 0.35	\$ 0.45
Diluted - pro forma	\$ 0.31	\$ 0.42

The stock-based compensation included in the table above represents the after-tax amount of pro forma compensation related to stock option plans. Reported net income includes amortization of restricted stock compensation of \$89 and \$117, net of income taxes, for the three months ended July 25, 2004, and July 27, 2003, respectively.

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

Fiscal Quarter	Risk-Free Interest Rate	Original Expected Life	Expected Volatility	Expected Dividends
July 25, 2004	3.02%	6.05 years	57.8%	None
July 27, 2003	2.97%	6.14 years	58.4%	None

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

3. Long-Term Debt

	<u>July 25, 2004</u>	<u>April 25, 2004</u>
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	206,875	207,500
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below):		
Variable rate term loan Tranche C	164,587	165,000
Special Assessment BID Bonds (described below)	700	700
Variable rate TIF Bonds due to City of Bettendorf (described below)	4,624	4,624
Variable rate General Obligation Bonds due to City of Davenport (described below)	1,830	1,830
12.5% note payable, due in monthly installments of \$125, including interest, beginning October 1997 through October 2005	1,512	1,833
Blue Chip Credit Facility (6.25% at July 25, 2004) due December 2008; non-recourse to Isle of Capri Casinos, Inc	3,893	3,418
Other	5,948	3,959
	<u>1,089,969</u>	<u>1,088,864</u>
Less current maturities	8,854	8,040
Long-term debt	<u>\$ 1,081,115</u>	<u>\$ 1,080,824</u>

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 25, 2004 and April 25, 2004.

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

3. Long-Term Debt (continued)

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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 subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk, the Colorado Central Station-Black Hawk and the Colorado Grande-Cripple Creek, and other subsidiaries as described more fully in Note 7. 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.

A substantial amount of the proceeds from the 7% Senior Subordinated Notes was used to prepay long-term debt, including all of the previously outstanding \$390.0 million of 8.75% Senior Subordinated Notes due 2009. The proceeds were also used to pay prepayment premiums, accrued interest and other transaction fees and costs.

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

3. Long-Term Debt (continued)

9% Senior Subordinated Notes

On March 27, 2002, the Company issued \$200.0 million of 9% Senior Subordinated Notes due 2012 (the 9% Senior Subordinated Notes). The 9% Senior Subordinated Notes are guaranteed by all of the Company's significant subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk, the Colorado Central Station-Black Hawk and the Colorado Grande-Cripple Creek, and other subsidiaries as described more fully in Note 7. 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.

A substantial amount of the proceeds from the 9% Senior Subordinated Notes was used to prepay long-term debt, including \$195.0 million outstanding under the Company's previous Amended and Restated Senior Credit Facility. The proceeds were also used to pay accrued interest and other transaction fees and costs.

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

3. Long-Term Debt (continued)

Senior Secured Credit Facility

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

The Senior Secured Credit Facility provides for certain covenants, including those of a financial nature. The Senior Secured Credit Facility is secured by liens on substantially all of the Company's assets and guaranteed by all of its significant restricted subsidiaries, excluding Casino America of Colorado, Inc., the Isle-Black Hawk, the Colorado Central Station-Black Hawk, the Colorado Grande-Cripple Creek and their subsidiaries, and other subsidiaries as described more fully in Note 7.

The weighted average effective interest rate of total debt outstanding under the Senior Secured Credit Facility at July 25, 2004 was 3.52%.

Isle-Black Hawk Senior Secured Credit Facility

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

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

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

The weighted average effective interest rate of total debt outstanding under the Isle-Black Hawk Senior Secured Credit Facility at July 25, 2004 was 5.07%.

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

3. 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 48.6% of its variable rate term debt outstanding under the Isle-Black Hawk's Senior Secured Credit Facility as of July 25, 2004. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until the first fiscal quarter of 2006, thus reducing the impact of interest rate changes on future interest expense. The interest rate swap agreements terminate as follows: \$40.0 million in fiscal 2005 and \$40.0 million in fiscal 2006. We evaluate the effectiveness of these hedged transactions on a quarterly basis. We found no portion of the hedging instruments to be ineffective during the quarter ended July 25, 2004. Accordingly, no gains or losses have been recognized on these cash flow hedges.

At July 25, 2004, the Isle-Black Hawk does not expect to reclassify any net gains or losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to the payment of variable interest associated with the floating rate debt.

Isle-Black Hawk Special Assessment BID Bonds

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

Isle-Bettendorf TIF Bonds

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

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

3. Long-Term Debt (continued)

Isle-Davenport General Obligation Bonds

In 2002, the Isle-Davenport entered into an agreement with the City of Davenport (the "City") whereby the City would construct and own a skybridge connecting to the Isle-Davenport's facility, allowing safer access across the street and railroad tracks. The project is expected to cost \$6.4 million, with the Isle-Davenport obligated to pay \$1.8 million. In February 2004, the City issued \$1.8 million in ten-year general obligation tax-exempt bonds at an average interest rate of 3.1%. The Isle-Davenport is required to make the first payment, consisting solely of accrued interest, of approximately \$0.04 million, on or before December 1, 2004. Thereafter, the Isle-Davenport is required to make annual payments of principal and interest, to the City, to retire the bonds. As of July 25, 2004, no payments had been made to the City, but the obligation has been recorded as a liability of the Isle-Davenport.

Lines of Credit

As of July 25, 2004, the Company had \$272.0 million under its lines of credit, of which \$271.0 million was available.

4. Comprehensive Income

Comprehensive income (loss) consists of the following:

	<u>Unrealized gain (loss) on interest rate swaps</u>	<u>Foreign currency translation adjustment</u>	<u>Accumulated other comprehensive income</u>
	(In thousands)		
Balance, April 25, 2004	\$ (240)	\$ 761	\$ 521
Net change	<u>172</u>	<u>481</u>	<u>653</u>
Balance, July 25, 2004	<u>(68)</u>	<u>1,242</u>	<u>1,174</u>

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

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

5. Contingencies

In April 1994, one of the Company's subsidiaries was named, along with numerous manufacturers, distributors and gaming operators, including many of the country's largest gaming operators, in a consolidated class action lawsuit that is currently pending in Las Vegas, Nevada. These gaming industry defendants are alleged to have violated the Racketeer Influenced and Corrupt Organizations Act by engaging in a course of fraudulent and misleading conduct intended to induce people to play their gaming machines based upon a false belief concerning how those gaming machines actually operate and the extent to which there is actually an opportunity to win on any given play. The suit seeks unspecified compensatory and punitive damages. In June 2002, the district court denied the Motion for Class Certification. This decision was appealed to the United States District Court for the Ninth Circuit. On August 10, 2004, the Ninth Circuit denied the appeal upholding the lower court's decision denying the petition for class certification. At this time, the Company remains unable to determine what effect, if any, the suit would have on its consolidated financial position or results of operations. The gaming industry defendants are committed to continuing a vigorous defense of all claims asserted in this matter.

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

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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 July 25, 2004, based on published exchange rates). Although it is difficult to determine the damages being sought from the lawsuit, the action may seek damages up to that aggregate amount plus interest from the date of the action. The Athens Civil Court of First Instance granted judgment in the Company's favor and dismissed the lawsuit, but the Ministry appealed the matter and the appeal was heard before the Athens Appeal Court of First Instance. The Athens Appeal Court issued certified copies of judgments denying the Ministry's appeal. The Ministry elected to appeal this matter further to the Supreme Court. The Company is currently taking action to have this matter set for a hearing before the Supreme Court. Accordingly, 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.

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

5. Contingencies (continued)

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

In March 2004, the Company was selected by the Illinois Gaming Board as the successful bidder in a federal bankruptcy court auction for the 10th Illinois gaming license. Because Illinois limits the number of gaming licenses, each license has intrinsic value. Therefore, this license would be considered an intangible asset. As such, the cost of the license, as well as costs to acquire the license, are capitalized. As of July 25, 2004 the Company has capitalized \$1.6 million related to acquisition of this license. Should the Company fail to obtain the license and be unable to complete the project, this amount would be expensed.

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.

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

6. Earnings per Share of Common Stock

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

	Three Months Ended	
	July 25, 2004	July 27, 2003
(In thousands, except per share data)		
Numerator:		
Net income	\$ 10,609	\$ 13,552
Numerator for basic earnings per share - income available to common stockholders		
	\$ 10,609	\$ 13,552
Effect of diluted securities	-	-
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions		
	\$ 10,609	\$ 13,552
Denominator:		
Denominator for basic earnings per share - weighted - average shares	29,686	29,146
Effect of dilutive securities		
Employee stock options and nonvested restricted stock	1,063	1,209
Denominator for diluted earnings per share - adjusted weighted - average shares and assumed conversions	30,749	30,355
Basic earnings per share	\$ 0.36	\$ 0.46
Diluted earnings per share	\$ 0.35	\$ 0.45

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

7. Consolidating Condensed Financial Information

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

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income and cash flows for the three months ended July 25, 2004, and July 27, 2003.

ISLE OF CAPRI CASINOS, INC.
CONSOLIDATING CONDENSED GUARANTOR SUBSIDIARIES, NON-GUARANTOR SUBSIDIARIES, AND PARENT
COMPANY
FINANCIAL INFORMATION
AS OF JULY 25, 2004 AND APRIL 25, 2004 AND FOR
THE THREE MONTHS ENDED JULY 25, 2004 AND JULY 27, 2003
UNAUDITED
(In thousands)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
As of July 25, 2004					
Balance Sheet					
Current assets	\$ 58,032	\$ 102,891	\$ 39,971	\$ (3,176)	\$ 197,718
Intercompany receivables	891,627	(226,477)	70,851	(736,001)	-
Investments in subsidiaries	220,621	262,646	6,624	(489,891)	-
Property and equipment, net	5,367	719,412	190,045	-	914,824
Other assets	19,725	369,197	51,388	-	440,310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 1,195,372	\$ 1,227,669	\$ 358,879	\$ (1,229,068)	\$ 1,552,852
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current liabilities	\$ 39,161	\$ 93,949	\$ 31,019	\$ (3,176)	\$ 160,953
Intercompany payables	14,900	620,238	100,863	(736,001)	-
Long-term debt,					
less current maturities	904,375	9,039	167,701	-	1,081,115
Deferred state income taxes	-	7,997	194	-	8,191
Other accrued liabilities	(8,656)	55,492	(12,556)	-	34,280
Minority interest	-	-	-	21,579	21,579
Stockholders' equity	245,592	440,954	71,658	(511,470)	246,734
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 1,195,372	\$ 1,227,669	\$ 358,879	\$ (1,229,068)	\$ 1,552,852
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

7. Consolidating Condensed Financial Information (continued)

Isle of Capri	(b)	Consolidating
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	Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	Non- Guarantor Subsidiaries	and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
For the Three Months Ended July 25, 2004					
<u>Statement of Income</u>					
Revenues:					
Casino	\$ -	\$ 235,779	\$ 48,416	\$ -	\$ 284,195
Rooms, food, beverage and other	55	46,312	7,678	-	54,045
Gross revenues	55	282,091	56,094	-	338,240
Less promotional allowances	-	46,690	10,678	-	57,368
Net revenues	55	235,401	45,416	-	280,872
Operating expenses:					
Casino	-	38,126	7,536	-	45,662
Gaming taxes	-	53,828	9,116	-	62,944
Rooms, food, beverage and other	6,405	86,058	19,306	-	111,769
Management fee expense (revenue)	(7,870)	8,163	(293)	-	-
Depreciation and amortization	377	20,367	2,879	-	23,623
Total operating expenses	(1,088)	206,542	38,544	-	243,998
Operating income	1,143	28,859	6,872	-	36,874
Interest expense, net	10,110	(25,014)	(2,496)	-	(17,400)
Minority interest	-	-	-	(2,133)	(2,133)
Equity in income (loss) of subsidiaries	6,427	(131)	(2,349)	(3,947)	-
Income before income taxes	17,680	3,714	2,027	(6,080)	17,341
Income taxes	7,071	-	(594)	255	6,732
Net income	\$ 10,609	\$ 3,714	\$ 2,621	\$ (6,335)	\$ 10,609

Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
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For the Three Months Ended July 25, 2004

Statement of Cash Flows

Net cash provided by (used in)

operating activities	\$ 27,948	\$ 19,772	\$ 6,677	\$ (3,946)	\$ 50,451
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Net cash provided by (used in)

investing activities	(4,423)	(17,719)	(7,715)	2,376	(27,481)
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Net cash provided by (used in)

financing activities	(6,952)	2,087	(3,261)	1,570	(6,556)
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Effect of foreign currency exchange rates
on

cash and cash equivalents	-	28	-	-	28
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Net increase (decrease) in cash and

cash equivalents	16,573	4,168	(4,299)	-	16,442
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Cash and cash equivalents at

beginning of the period	33,323	70,916	30,343	-	134,582
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Cash and cash equivalents at

end of the period	\$ 49,896	\$ 75,084	\$ 26,044	\$ -	\$ 151,024
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**ISLE OF CAPRI CASINOS, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

7. 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
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For the Three Months Ended July 27, 2003

Statement of Income

Revenues:

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Casino	\$ -	\$ 242,800	\$ 45,983	\$ -	\$ 288,783
Rooms, food, beverage and other	1,122	46,000	7,113	-	54,235
Gross revenues	1,122	288,800	53,096	-	343,018
Less promotional allowances	-	46,504	10,763	-	57,267
Net revenues	1,122	242,296	42,333	-	285,751
Operating expenses:					
Casino	-	39,901	6,518	-	46,419
Gaming taxes	-	53,494	8,725	-	62,219
Rooms, food, beverage and other	5,955	89,835	13,922	-	109,712
Management fee expense (revenue)	(8,362)	8,392	(30)	-	-
Depreciation and amortization	350	18,993	2,274	-	21,617
Total operating expenses	(2,057)	210,615	31,409	-	239,967
Operating income	3,179	31,681	10,924	-	45,784
Interest expense, net	7,453	(25,347)	(3,204)	-	(21,098)
Minority interest	-	-	-	(2,833)	(2,833)
Equity in income (loss) of subsidiaries	11,052	1,471	558	(13,081)	-
Income before income taxes	21,684	7,805	8,278	(15,914)	21,853
Income taxes	8,132	-	169	-	8,301
Net income	\$ 13,552	\$ 7,805	\$ 8,109	\$ (15,914)	\$ 13,552

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

7. 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
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For the Three Months Ended July 27, 2003

Statement of Cash Flows

Net cash provided by (used in)

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operating activities	\$ 29,782	\$ 39,261	\$ 9,910	\$ (18,510)	\$ 60,443
Net cash provided by (used in)					
investing activities	(11,533)	(26,875)	2,936	13,002	(22,470)
Net cash provided by (used in)					
financing activities	(3,360)	(3,265)	(4,009)	536	(10,098)
Net increase (decrease) in cash and cash equivalents	14,889	9,121	8,837	(4,972)	27,875
Cash and cash equivalents at beginning of the period	7,313	53,268	15,508	4,550	80,639
Cash and cash equivalents at end of the period	\$ 22,202	\$ 62,389	\$ 24,345	\$ (422)	\$ 108,514

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
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As of April 25, 2004

Balance Sheet

Current assets	\$ 43,106	\$ 93,620	\$ 40,749	\$ (2,154)	\$ 175,321
Intercompany receivables	890,557	(228,132)	73,495	(735,920)	-
Investments in subsidiaries	215,764	262,777	8,855	(487,396)	-
Property and equipment, net	4,521	721,982	180,957	-	907,460
Other assets	21,890	369,128	50,236	-	441,254
Total assets	\$ 1,175,838	\$ 1,219,375	\$ 354,292	\$ (1,225,470)	\$ 1,524,035
Current liabilities	\$ 23,531	\$ 89,100	\$ 29,038	\$ (2,154)	\$ 139,515
Intercompany payables	14,900	620,157	100,863	(735,920)	-
Long-term debt,					
less current maturities	905,000	9,391	166,433	-	1,080,824
Deferred state income taxes	-	7,997	194	-	8,191
Other accrued liabilities	(8,621)	55,492	(12,955)	-	33,916
Minority interest	-	-	-	20,183	20,183
Stockholders' equity	241,028	437,238	70,719	(507,579)	241,406
Total liabilities and stockholders' equity	\$ 1,175,838	\$ 1,219,375	\$ 354,292	\$ (1,225,470)	\$ 1,524,035