ISLE OF CAPRI CASINOS INC
Form 10-Q
December 07, 2006

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

FORM 10-Q

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

For the quarterly period ended October 29, 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	**41-1659606**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
600 Emerson Road, Suite 300, Saint Louis, Missouri	**63141**
(Address of principal executive offices)	**(Zip Code)**

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

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 x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of December 4, 2006, the Company had a total of 34,463,402 shares of Common Stock outstanding (which includes 4,131,082 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 use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe” or “continue” or the negative thereof or variations tl 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 30, 2006, 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;

• the effects of increases in construction costs;

• general and regional economic conditions;

• the effects of limitations imposed by our substantial indebtedness

• the outcome of pending litigation; 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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

ASSETS	**October 29, 2006** (Unaudited)	**April 30, 2006**
Current assets:		
Cash and cash equivalents	$ 124,456	$ 121,193
Marketable securities	18,051	17,727
Accounts receivable, net	24,403	17,268
Insurance receivable, net	76,016	72,053
Deferred income taxes	9,880	9,897
Prepaid expenses and other assets	34,122	15,560
Assets held for sale	-	222,446
Total current assets	286,928	476,144
Property and equipment, net	1,049,459	938,428
Other assets:		
Goodwill	296,354	296,354
Other intangible assets	74,789	74,789
Deferred financing costs, net	14,770	16,064
Restricted cash	71,158	2,210
Prepaid deposits and other	34,718	29,955
Total assets	$ 1,828,176	$ 1,833,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 9,168	$ 8,588
Accounts payable	36,281	58,561
Accrued liabilities:		
Interest	11,321	10,523
Payroll and related	50,249	56,904
Property and other taxes	30,863	25,888
Income taxes	13,346	10,323
Progressive jackpots and slot club awards	14,647	12,415
Other	40,370	40,652
Total current liabilities	206,245	223,854
Long-term debt, less current maturities	1,212,850	1,212,692
Deferred income taxes	63,670	64,440
Other accrued liabilities	21,698	23,580
Minority interest	27,037	26,690
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 45,000 shares authorized; shares issued:		
34,463 at October 29, 2006 and 34,291 at April 30, 2006	344	343
Class B common stock, $.01 par value; 3,000 shares authorized; none issued	-	-
Additional paid-in capital	164,303	160,508

Unearned compensation	-	(1,383)
Retained earnings	177,781	165,156
Accumulated other comprehensive income	1,508	220
	343,936	324,844
Treasury stock, 4,131 shares at October 29, 2006 and 3,902 shares at April 30, 2006	(47,260)	(42,156)
Total stockholders' equity	296,676	282,688
Total liabilities and stockholders' equity	$ 1,828,176	$ 1,833,944

See notes to the unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 29, 2006	October 23, 2005	October 29, 2006	October 23, 2005
Revenues:				
Casino	$ 249,237	$ 215,472	$ 526,857	$ 459,757
Rooms	13,319	8,912	27,970	19,168
Pari-mutuel commissions and fees	3,832	3,779	8,793	8,951
Food, beverage and other	32,156	26,936	66,968	59,555
Gross revenues	298,544	255,099	630,588	547,431
Less promotional allowances	55,317	45,060	113,393	94,896
Net revenues	243,227	210,039	517,195	452,535
Operating expenses:				
Casino	41,840	33,911	84,038	73,883
Gaming taxes	53,076	48,692	111,419	103,014
Rooms	2,405	2,149	4,883	4,492
Pari-mutuel commissions and fees	3,070	3,200	6,896	7,116
Food, beverage and other	7,458	6,583	16,598	14,212
Marine and facilities	16,296	14,524	31,821	28,671
Marketing and administrative	79,699	68,490	167,164	142,905
Hurricane related charges, net	-	1,200	-	1,200
Preopening	2,786	151	3,035	184
Depreciation and amortization	23,981	21,648	47,483	43,248
Total operating expenses	230,611	200,548	473,337	418,925
Operating income	12,616	9,491	43,858	33,610
Interest expense	(22,861)	(18,318)	(42,731)	(35,646)
Interest income	3,689	922	4,451	1,834
Minority interest	(547)	(1,892)	(1,618)	(3,948)
Income (loss) from continuing operations before income taxes	(7,103)	(9,797)	3,960	(4,150)
Income taxes (benefit)	(2,855)	(4,266)	2,893	(1,914)
Income (loss) from continuing operations	(4,248)	(5,531)	1,067	(2,236)
Gain on sale of discontinued operations, net of taxes	7,730	-	7,730	-
Income (loss) from discontinued operations, net of income taxes	(97)	1,312	3,828	2,001
Net income (loss)	$ 3,385	$ (4,219)	$ 12,625	$ (235)
Earnings (loss) per common share-basic:				
Income (loss) from continuing operations	$ (0.14)	$ (0.18)	$ 0.04	$ (0.07)
Income from discontinued operations, net of income taxes	0.25	0.04	0.38	0.07
Net income (loss)	$ 0.11	$ (0.14)	$ 0.42	$ (0.01)
Earnings (loss) per common share-diluted:				

Income (loss) from continuing operations	$ (0.14)	$ (0.18)	$ 0.03	$ (0.07)
Income from discontinued operatons, net of income taxes	0.25	0.04	0.37	0.07
Net income (loss)	$ 0.11	$ (0.14)	$ 0.40	$ (0.01)
Weighted average basic shares	30,346	30,097	30,384	30,105
Weighted average diluted shares	31,053	30,097	31,228	30,105

See notes to the unaudited consolidated financial statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compen-sation	Retained Earnings	Accum. Other Compre-hensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, April 30, 2006	34,291	$ 343	$ 160,508	$ (1,383)	$ 165,156	$ 220	$ (42,156)	$ 282,688
Net income	-	-	-	-	12,625	-	-	12,625
Unrealized loss on interest rate swap contracts net of income tax benefit of $9	-	-	-	-	-	(13)	-	(13)
Foreign currency translation adjustments	-	-	-	-	-	1,301	-	1,301
Comprehensive income	-	-	-	-	-	-	-	13,913
Exercise of stock options, including income tax benefit of $522	172	1	1,999	-	-	-	-	2,000
Issuance of deferred bonus shares from treasury stock	-	-	(429)	-	-	-	429	-
Deferred bonus expense	-	-	91	-	-	-	-	91
Stock compensation expense	-	-	3,517	-	-	-	-	3,517
Reclassification of unearned compensation due to the adoption of SFAS 123(R)	-	-	(1,383)	1,383	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	-	(5,533)	(5,533)
Balance, October 29, 2006	34,463	$ 344	$ 164,303	$ -	$ 177,781	$ 1,508	$ (47,260)	$ 296,676

See notes to the unaudited consolidated financial statements.

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

	Six Months Ended October 29, 2006	Six Months Ended October 23, 2005
Operating activities:		
Net income	$ 12,625	$ (235)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,483	50,652
Amortization of deferred financing costs	1,294	1,661
Amortization of unearned compensation	-	232
Asset impairment	7,679	60,051
Deferred income taxes	(1,307)	(2,212)
Stock compensation expense	3,608	-
Gain on disposal of assets	(14,390)	-
Minority interest	1,618	3,948
Changes in operating assets and liabilities, net of dispositions:		
Accounts receivable	(7,135)	(713)
Insurance receivable	(22,502)	(70,196)
Income taxes, net	2,270	4,431
Prepaid expenses and other assets	(18,562)	(9,220)
Accounts payable and accrued liabilities	(21,094)	16,400
Net cash provided by/(used in)operating activities	(8,413)	54,799
Investing activities:		
Purchase of property and equipment	(166,089)	(108,659)
Purchase of intangibles	(4,000)	(5,775)
Purchase of short-term investments, net of sales	(324)	(2,922)
Proceeds from sales of assets	1,331	-
Proceeds from sale of assets held for sale	238,725	-
Insurance proceeds for hurricane damages	18,786	-
Restricted cash	(68,948)	(173)
Prepaid deposits and other	(5,274)	(7,128)
Payments on notes receivable	511	12
Net cash provided by/(used in) investing activities	14,718	(124,645)
Financing activities:		
Proceeds from debt	-	50,000
Borrowing from line of credit	200,252	10,000
Payments on line of credit	(196,400)	-
Principal payments on debt	(3,385)	(3,166)
Payment of deferred financing costs	-	(40)
Tax benefit of stock compensation expense	522	-
Purchase of treasury stock	(5,533)	(8,494)
Proceeds from exercise of stock options	1,478	949
Net cash provided by financing activities	(3,066)	49,249

Effect of foreign currency exchange rates on cash		24		(651)
Net decrease in cash and cash equivalents		3,263		(21,248)
Cash and cash equivalents at the beginning of period		121,193		146,743
Cash and cash equivalents at the end of the period	$	124,456	$	125,495

See notes to the unaudited consolidated financial statements.

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

	Six Months Ended	
	October 29, 2006	**October 23, 2005**
Supplemental disclosure of cash flow information:		
Net cash payments for:		
Interest (net of capitalized interest)	$ 46,723	$ 41,859
Income taxes, net of refunds	19,955	(593)

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Nature of Operations

Isle of Capri Casinos, Inc. (the "Company" or "Isle of Capri") was incorporated in Delaware in February 1990. The Company is a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States and internationally. The Company wholly owns and operates nine casino gaming facilities in the United States located in Lake Charles, Louisiana; Lula, Biloxi and Natchez, Mississippi; Kansas City and Boonville, Missouri; and Bettendorf, Davenport and Marquette, Iowa. The Company also owns a 57% interest in, and receive management fees for operating two gaming facilities in Black Hawk, Colorado. One of these facilities in Black Hawk, Colorado operates under the name "Isle of Capri" and features the Company's distinctive tropical island theme. The Company's international gaming interests include a wholly owned casino in Freeport, Grand Bahama, a two-thirds ownership interest in casinos in Dudley and Wolverhampton, England and a wholly owned casino to be opened in the summer of 2007 in Coventry, England. The Company also wholly owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida.

On July 31, 2006, the Company closed the sale of Isle-Bossier City and Isle-Vicksburg. The financial position and results of these operations are presented as assets held for sale in the consolidated balance sheets and discontinued operations in the consolidated statements of operations, respectively, for all periods presented in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." For further discussion see Note 4.

On June 1, 2006, the Company notified its landlord of its decision to terminate its lease at Isle-Our Lucaya in Freeport, Grand Bahama. In the first fiscal quarter, the Company recorded approximately $2.2 million in lease termination costs in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities." This charge, included in marketing and administrative expenses, relates to the Company's planned exit of the Isle-Our Lucaya operation by June 2007.

On May 11, 2005, the Company announced that the Iowa Racing and Gaming Commission awarded it a gaming license in Waterloo, Iowa. Construction is underway on a 35,000 square foot single level casino with 1,300 gaming positions, three restaurants, a 200-room hotel and 1,000 parking spaces. The project scope has recently been expanded and will also include a nightclub, a full service spa and a resort pool. The Company expects the property to open in late spring of 2007 at a total cost of $175 million, which reflects an increase of $35.5 million from previously anticipated costs resulting from the expanded scope of the project

In November 2004, voters in the State of Florida amended the state's constitution to allow the voters of Miami-Dade and Broward counties (Broward County is the location of the Pompano Park Racetrack) to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. Broward County voters passed their local referendum and Miami-Dade county voters rejected their referendum in March 2005.

On January 4, 2006, a Florida statute became effective allowing Pompano Park and three other pari-mutuel facilities in Broward County to offer slot machine gaming to patrons at these facilities. Although there are pari-mutuel facilities in numerous other counties in the State of Florida, slot machine gaming is only authorized in Broward County where Pompano Park is located. The Company is constructing a gaming facility including 1,500 slot machines, four restaurants and a feature bar at Pompano Park adjacent to the existing grandstand at a cost of $167.0 million with slot machine gaming anticipated to commence in early calendar year 2007. The statute authorizes the Company to operate up to 1,500 slot machines at Pompano Park 365 days per year, 16 hours per day and requires Pompano Park to pay an annual license fee of $3.0 million and gaming taxes equal to 50% of Pompano Park's net slot machine revenue plus combined county and city taxes approximating an additional 3.5% on the first $250 million of net slot machine revenue and 5% on net slot machine revenue over $250 million. The Florida Department of Business and Professional

Regulation is administering the law and is now implementing rules and regulations for the operation of the slot machines.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Background and Nature of Operations (continued)

The Florida District Court of Appeal First District recently affirmed its earlier decision to reverse a lower court decision granting summary judgment in favor of Floridians for a Level Playing Field (FLPF), of which the Company is a member. Although the Court based its decision on different grounds than its earlier decision, the Court ruled that a trial is necessary to determine whether FLPF failed to obtain the required number of signatures to place the constitutional amendment on the ballot. However, the Court granted FLPF's request to certify FLPF's appeal of the Court's decision to the Supreme Court. The decision by the Supreme Court whether to accept the appeal at this stage of the litigation is discretionary. The Company believes that this decision is contrary to existing Florida law and if a trial were to be held, that FLPF would prevail on the merits and accordingly the Company is proceeding with the development. However, if FLPF is ultimately unsuccessful in the litigation, the statewide vote amending the Florida constitution to permit slot machines at pari-mutuels would be invalidated and the Company's right to operate slot machines at Pompano Park would be eliminated. The Company cannot assure you as to the outcome of this litigation.

On August 18, 2006, the Harrison County Planning Commission approved the Company's master plan for the previously announced 50-acre development in west Harrison County, Mississippi, which is approximately 20 miles from the Mississippi/Louisiana state border near Interstate 10. Preliminary plans call for the estimated $300 million project to include a single level gaming facility with over 2,000 gaming positions, a 350-room hotel, four restaurants and a complement of additional resort amenities. The project remains in the preliminary planning stages, and is subject to certain significant conditions, including but not limited to the receipt of all necessary licenses, approvals and permits.

The Company continues to pursue the one stand-alone slot machine gaming license in Pittsburgh, Pennsylvania. During the second fiscal quarter of 2007, the Company received master plan approval from the City Planning Commission for its proposed project in Pittsburgh, Pennsylvania, and participated in a suitability hearing before the Pennsylvania Gaming Control Board. The proposed project, one of three before the PGCB, includes a $450 million casino to be developed by the Company, a $290 million multi-purpose arena to be funded by the Company and more than $350 million in residential, office and retail development on the site of Mellon Arena to be developed and funded by a third party. The Company expects a licensure decision by late-December 2006.

The Company is postured to expand internationally with a revised agreement in connection with resort developer, Eighth Wonder's, proposal to build an integrated resort complex on Sentosa Island in Singapore. The revised agreement includes equity ownership in the resort complex by Melco PBL Entertainment, Eighth Wonder and Isle of Capri. Should Eighth Wonder be the successful bidder in the Sentosa Island request for proposal, Isle of Capri's equity contribution will be $65 million for a 13.8% ownership interest. The Company will also receive a payment equal to 2% of casino gross revenues for a 15-year period. The proposal is one of three bidders for the project with a licensure decision expected in early-December 2006.

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 six months ended October 29, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending April 29, 2007. 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 30, 2006.

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, as occurred in the fiscal year ended April 30, 2006. Fiscal 2007 commenced on May 1, 2006 and ends on April 29, 2007.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Discontinued operations relate to those of the Colorado Grande casino, located in Cripple Creek, Colorado, the Isle-Vicksburg, which is the Riverboat Gaming Corporation of Mississippi-Vicksburg located in Vicksburg, Mississippi and the Isle-Bossier City, which is the Louisiana Riverboat Gaming Partnership located in Bossier City, Louisiana. The financial position and result of these operations are presented as assets held for sale in the consolidated balance sheet as of April 30, 2006 and discontinued operations in the consolidated statements of operations, respectively, for all periods presented in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144.

In April 2006, the Company’s Board of Directors approved a plan to close the Isle-Our Lucaya facility in Freeport, Grand Bahama. Effective June 1, 2006, the Company notified its landlord of its decision to terminate the lease and the Company intends to cease operations by June 1, 2007 as required by its lease. The Company will continue to report the results of the Isle-Our Lucaya property as continuing operations until a probable sale of this facility is reached or operations are ceased, at which time, these results will be reported as discontinued operations.

2. Summary of Significant Accounting Policies

New Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,” which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that a company recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective in the first quarter of fiscal 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact, if any, of adopting FIN 48 on its financial statements, and such impact cannot be reasonably estimated at this time.

In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements”* (“SFAS No. 157”), to define fair value and establish a framework for measuring fair value in generally accepted accounting principles (“GAAP”) and to expand disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. The expanded disclosures about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements and the effect of certain of the measurements on earnings (or changes in net assets) for the period. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods with those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157 on its financial statements, and such impact cannot be reasonably estimated at this time.

3. Stock-Based Compensation

Effective May 1, 2006, the Company adopted the Financial Accounting Standards Board SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS 123(R)), using the modified prospective method, thus, results for the prior period have not been restated.

As a result of adopting SFAS 123(R), the Company recognized $1.6 million and $3.5 million for stock option expense for the three and six months ended October 29, 2006, respectively, which is included in marketing and administrative expense in the Consolidated Statements of Operations for the three and six months ended October 29, 2006. The total income tax benefit recognized was approximately $0.2 million and $0.6 million for the three and six months ended October 29, 2006, respectively. The incremental expense, net of income tax benefit, for stock options decreased diluted earnings per share by $0.04 and $0.09 for the three and six months ended October 29, 2006, respectively. As of October 29, 2006, there was $11.5 million in unrecognized stock compensation costs, related to unvested options, which the Company will expense over the remaining vesting period, approximately 5 years with a weighted average period of 3.8 years.

For periods prior to May 1, 2006, the Company applied 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 was 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 recognized a tax benefit from the exercise of certain stock options. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had adopted SFAS No. 123(R) for the three and six months ended October 23, 2005.

3. Stock-Based Compensation (continued)

(In thousands, except per share data)		Three Months Ended October 23, 2005		Six Months Ended October 23, 2005
Loss from continuing operations	$	(5,531)	$	(2,236)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,119)		(2,141)
Pro forma loss before discontinued operations	$	(6,650)	$	(4,377)
Income from discontinued operations		1,312		2,001
Pro forma net loss	$	(5,338)	$	(2,376)
Earnings (loss) per share: Basic				
As Reported				
Loss from continuing operations	$	(0.18)	$	(0.07)
Income from discontinued operations		0.04		0.07
Net loss	$	(0.14)	$	(0.01)
Earnings (loss) per share: Basic				
Pro Forma				
Loss from continuing operations	$	(0.22)	$	(0.15)
Income from discontinued operations		0.04		0.07
Net loss	$	(0.18)	$	(0.08)
Earnings (loss) per share: Diluted				
As Reported				
Loss from continuing operations	$	(0.18)	$	(0.07)
Income from discontinued operations		0.04		0.07
Net loss	$	(0.14)	$	(0.01)
Earnings (loss) per share: Diluted				
Pro Forma				
Loss from continuing operations	$	(0.22)	$	(0.15)
Income from discontinued operations		0.04		0.07
Net loss	$	(0.18)	$	(0.08)

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

Six Months Ended	Risk-Free Interest Rate	Original Expected Life	Expected Volatility	Expected Dividends
October 29, 2006	4.69 %	5.85 years	52.5 %	None
October 23, 2005	4.00 - 4.56 %	6.26 - 6.51 years	54.45 - 55.8%	None

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Stock-Based Compensation (continued)

Additionally, under the Company's Deferred Bonus Plan, the Company issues non-vested stock to eligible officers and employees. The Company amortizes the fair value of the non-vested stock ratably over the vesting period of five years.

The following table presents the number and weighted average grant-date fair value of shares granted, vested and forfeited during the three months ended October 29, 2006 and July 30, 2006:

	Number of Shares		Weighted Average Fair Value
Non-vested stock at May 1, 2006	121,069	$	19.60
Options granted	-		-
Options vested	(3,405)		17.65
Options forfeited	(3,251)		20.05
Non-vested stock at July 30, 2006	114,413		19.64
Options granted	-		-
Options vested	(7,669)		20.44
Options forfeited	(3,969)		20.62
Non-vested stock at October 29, 2006	102,775	$	19.54

Under the Company's 1992, 1993 and 2000 Stock Option Plans, as amended, a maximum of 1,058,750, 4,650,000 and 3,500,000 options, respectively, are reserved for issuance and may be granted to directors, officers and employees. The plans provide for the issuance of incentive stock options and nonqualified options which have a maximum term of 10 years and are, generally, exercisable in yearly installments ranging from 20% to 25%, commencing one year after the date of grant. The Company has 724,233 shares available for future issuance under its equity compensation plans as of October 29, 2006.

Stock options outstanding are as follows:

	Options		Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding options at May 1, 2006	2,932,100	$	15.85		
Options granted	3,999		24.49		
Options exercised	(50,600)		4.10		
Options forfeited	(29,800)		18.49		
Outstanding options at July 30, 2006	2,855,699		16.04		
Options granted	627,900		25.01		
Options exercised	(119,789)		11.08		
Options forfeited	(140,300)		17.28		
Outstanding options at October 29, 2006	3,223,510	$	17.91	$	22,000,456
Outstanding exercisable options at October 29, 2006	1,731,260	$	13.86	$	18,815,161

The total intrinsic value of options exercised was $2.4 million during the six months ended October 29, 2006. Upon the exercise of options, the Company issues new shares. The weighted average fair value of options granted during the three and six months ended October 29, 2006 was $13.65.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Stock-Based Compensation (continued)

The following table summarizes information about stock options outstanding at October 29, 2006:

	Options Outstanding				Options Exercisable	
Ranges of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.61 - $ 5.22	185,929	1.6	years	$3.13	185,929	$3.13
5.22 - 7.84	318,985	4.8	years	6.50	318,985	6.50
7.84 - 10.45	140,422	2.9	years	10.25	140,422	10.25
10.45 - 13.06	39,173	1.9	years	12.38	39,173	12.38
13.06 - 15.67	525,335	4.8	years	15.35	457,735	15.32
15.67 - 18.28	7,827	3.0	years	17.75	7,827	17.75
18.28 - 20.90	1,092,838	7.4	years	20.36	475,738	20.40
20.90 - 23.51	26,962	2.0	years	23.00	26,962	23.00
23.51 - 26.12	886,039	9.4	years	24.91	78,489	24.75
$ 2.61 - 26.12	3,223,510	6.6	years	$17.91	1,731,260	$13.86

The weighted average remaining contractual life for options exercisable as of October 29, 2006 is 4.8 years.

4. Discontinued Operations

On February 14, 2006, the Company announced that it had entered into a definitive purchase agreement, dated February 13, 2006 to sell its properties in Bossier City, Louisiana and Vicksburg, Mississippi to privately owned Legends Gaming, LLC for $240 million cash less the Company's portion of closing costs. The sales agreement includes a net working capital adjustment to the purchase price. The transaction closed in the second quarter of fiscal 2007, on July 31, 2006. Therefore, there were no assets held for sale on the consolidated balance sheet as of October 29, 2006. Assets held for sale on the consolidated balance sheet as of April 30, 2006 relates to $42.8 million of fixed assets at Isle-Vicksburg and $126.3 million of fixed assets and $53.3 million of goodwill and other intangible assets at Isle-Bossier City.

Net revenues, pretax income from discontinued operations, income tax expense (benefit) on discontinued operations, gain on sale of discontinued operations, income tax expense on sale of discontinued operations and income from discontinued operations, which includes Isle-Vicksburg, Isle-Bossier City and Colorado Grande-Cripple Creek are summarized as follows:

	Discontinued Operations							
	Three Months Ended				Six Months Ended			
	October 29, 2006		October 23, 2005		October 29, 2006		October 23, 2005	
	(In thousands)				(In thousands)			
Net revenues	$	(77)	$	37,903	$	41,326	$	76,941
Pretax income from discontinued operations	$	(115)	$	2,443	$	6,686	$	3,776
	$	(18)	$	1,131	$	2,858	$	1,776

Income tax expense (benefit) from discontinued operations								
Gain on sale of discontinued operations	$	13,752	$	-	$	13,752	$	-
Income tax expense on sale of discontinued operations	$	6,022	$	-	$	6,022	$	-
Income from discontinued operations, net of income taxes	$	7,633	$	1,312	$	11,558	$	2,001

For the three months ended October 29, 2006 and October 23, 2005, there was $0 and $2.9 million, respectively, additional net interest expense allocated to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets of the Company plus the Company's debt that is not attributable to a particular operation. For the six months ended October 29, 2006 and October 23, 2005, additional net interest expense of $3.2 million and $5.7 million, respectively, has been allocated to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets of the Company plus the Company's debt that is not attributable to a particular operation.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. 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 facility and its casino barge under construction in Biloxi, Mississippi. On December 26, 2005, the Company, using its existing facility, opened a casino as part of the land-based structure that was not severely damaged by the storm.

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 has insurance coverage related to damage from the three hurricanes for property damage incurred, property operating costs during the operational downtime of the hurricanes, incremental costs incurred related to hurricane damage and recovery activities and business interruption insurance for lost profits during the period directly related to the hurricanes. The Company believes it will receive proceeds from its insurance carrier related to all four types of losses the Company has sustained, and through October 29, 2006 has received advances of $72.7 million, of which $3.5 million was received in the second fiscal quarter of 2007 and $18.8 was received in the six months ended October 29, 2006. The Company continues to negotiate with its insurers to settle the claim. The timeline for final settlement of the claim is not yet determinable.

During fiscal year 2006, the Company recognized asset impairments and losses of $68.6 million based on assessments of damage at all its locations. During the first fiscal quarter of 2007, the Company recognized an additional $0.5 million based on further assessments. The Company recognized an additional $7.1 million in the second fiscal quarter of 2007. The Company has also incurred out-of-pocket costs directly related to the hurricanes and the property operating costs related to the period of closure caused by the hurricanes, of $62.2 million during fiscal year 2006. The Company has incurred an additional $15.0 million in the fiscal year 2007. The total amount of losses recognized and expenses incurred of $153.5 million has been recorded as “Hurricane related charges, net” and has been offset by $148.7 million, which the Company believes is probable that it will collect from its insurance carriers under its policy coverage. The remaining amount of $4.8 million represents the Company’s deductible portion of its claims, which was recorded during fiscal year 2006. As discussed, the Company has been receiving advances against its insurance claims from the applicable insurance carriers and believes it may ultimately collect more than the $153.5 million of loss recognized in the income statement due to its replacement value coverage for its property damage and the lost profits component of its coverage. Any amounts in excess of the recorded loss will be recognized as gains by the Company when it and the insurance carriers agree to the final amounts to be paid to the Company for the losses sustained. The following table shows the activity flowing through the insurance accounts:

		Items Incurred as of October 29, 2006
Property impairment	$	76,239
Incremental costs incurred		77,245
Hurricane related charges		(4,776)
Insurance receivable, gross	$	148,708
Insurance receipts		(72,692)

Insurance receivable, net	$	76,016

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Goodwill and Other Intangible Assets

There were no changes in the carrying amount of goodwill since April 30, 2006. Other intangible assets consist of the following:

	October 29, 2006		April 30, 2006	
	(In thousands)			
Gaming licenses	$	57,224	$	57,224
Trademarks and player database		17,565		17,565
Other intangible assets, net	$	74,789	$	74,789

7. Long-Term Debt

Long-term debt consists of the following:	October 29, 2006		April 30, 2006	
	(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		295,000		296,500
Revolver		-		-
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below)				
Variable rate term loan Tranche C		188,100		189,050
Revolver		24,400		20,600
Isle-Black Hawk Special Assessment BID Bonds, non-recourse to Isle of Capri Casinos, Inc. (described below)		411		472
Blue Chip Credit Facility (4.75% at October 29, 2006) due January 2009; non-recourse to Isle of Capri Casinos, Inc. (described below)		6,885		6,563
Variable rate TIF Bonds due to City of Bettendorf (described below)		2,308		2,926
Variable rate General Obligation Bonds due to City of Davenport (described below)		1,505		1,675
Other		3,409		3,494
		1,222,018		1,221,