

ISLE OF CAPRI CASINOS INC
Form 10-Q
December 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 26, 2008

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.

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

600 Emerson Road, Suite 300, Saint Louis, Missouri
(Address of principal executive offices)

63141
(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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of December 5, 2008, the Company had a total of 31,821,784 shares of Common Stock outstanding (which excludes 4,340,476 shares held by us in treasury).

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	October 26, 2008 (Unaudited)	April 27, 2008
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 85,497	\$ 91,790
Marketable securities	19,227	18,533
Accounts receivable, net	9,093	12,195
Insurance receivable, net	3,928	7,689
Income tax receivable	37,539	28,663
Deferred income taxes	12,606	12,606
Prepaid expenses and other assets	35,797	27,905
Total current assets	203,687	199,381
Property and equipment, net	1,287,098	1,328,986
Other assets:		
Goodwill	307,649	307,649
Other intangible assets, net	88,676	89,252
Deferred financing costs, net	12,098	13,381
Restricted cash	2,774	4,802
Prepaid deposits and other	21,629	22,948
Deferred income taxes	8,910	7,767
Total assets	\$ 1,932,521	\$ 1,974,166
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 9,225	\$ 9,698
Accounts payable	23,095	29,283
Accrued liabilities:		
Interest	9,665	8,580
Payroll and related	46,925	47,618
Property and other taxes	34,676	30,137
Other	58,064	58,121
Total current liabilities	181,650	183,437
Long-term debt, less current maturities	1,476,081	1,497,591
Other accrued liabilities	51,062	52,821
Other long-term liabilities	50,423	52,305
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued		
Common stock, \$.01 par value; 45,000,000 shares authorized; shares issued: 36,104,924 at October 26, 2008 and 35,229,006 at April 27, 2008	361	353
Class B common stock, \$.01 par value; 3,000,000 shares authorized; none issued		
Additional paid-in capital	193,936	188,036

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Retained earnings	41,127	58,253
Accumulated other comprehensive loss	(9,720)	(5,601)
	225,704	241,041
Treasury stock, 4,340,476 shares at October 26, 2008 and 4,372,073 shares at April 27, 2008	(52,399)	(53,029)
Total stockholders' equity	173,305	188,012
Total liabilities and stockholders' equity	\$ 1,932,521	\$ 1,974,166

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

*(In thousands, except share and per share data)**(Unaudited)*

	Three Months Ended		Six Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
Revenues:				
Casino	\$ 255,655	\$ 278,282	\$ 536,656	\$ 555,516
Rooms	12,774	13,080	26,480	26,921
Pari-mutuel commissions and fees	3,123	3,838	7,396	8,414
Food, beverage and other	30,682	33,603	63,722	67,671
Gross revenues	302,234	328,803	634,254	658,522
Less promotional allowances	48,094	49,965	97,809	101,151
Net revenues	254,140	278,838	536,445	557,371
Operating expenses:				
Casino	39,677	41,330	80,103	80,693
Gaming taxes	63,722	71,965	134,867	141,037
Rooms	3,193	3,164	6,582	6,345
Pari-mutuel	2,929	3,172	6,115	6,844
Food, beverage and other	10,274	11,400	21,592	23,029
Marine and facilities	17,388	16,781	34,293	33,271
Marketing and administrative	68,049	73,683	136,301	142,999
Corporate and development	13,225	12,919	23,531	23,993
Write-offs and other charges		6,526	6,000	6,526
Pre-opening		324		6,457
Depreciation and amortization	32,268	35,270	65,007	65,827
Total operating expenses	250,725	276,534	514,391	537,021
Operating income	3,415	2,304	22,054	20,350
Interest expense	(24,837)	(29,176)	(49,493)	(54,990)
Interest income	499	1,140	1,056	2,234
Loss on early extinguishment of debt		(11,468)		(13,660)
Loss before income taxes and minority interest	(20,923)	(37,200)	(26,383)	(46,066)
Income tax benefit	7,423	14,611	9,257	18,289
Minority interest		(2,046)		(3,973)
Net loss	\$ (13,500)	\$ (24,635)	\$ (17,126)	\$ (31,750)
Loss per common share-basic and diluted	\$ (0.43)	\$ (0.80)	\$ (0.55)	\$ (1.04)
Weighted average basic and diluted shares	31,171,903	30,726,768	31,019,289	30,558,957

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

*(In thousands, except share data)**(Unaudited)*

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accum. Other Compre- hensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance, April 27, 2008	35,229,006	\$ 353	\$ 188,036	\$ 58,253	\$ (5,601)	\$ (53,029)	\$ 188,012
Net loss				(17,126)			(17,126)
Unrealized loss on interest rate swap contracts net of income tax benefit of \$1,141					(1,828)		(1,828)
Foreign currency translation adjustments					(2,291)		(2,291)
Comprehensive loss							(21,245)
Exercise of stock options	36,414		110				110
Issuance of deferred bonus shares from treasury stock			(630)			630	
Deferred bonus expense and other	664		(47)				(47)
Issuance of restricted stock	838,840	8	(8)				
Stock compensation expense			6,475				6,475
Balance, October 26, 2008	36,104,924	\$ 361	\$ 193,936	\$ 41,127	\$ (9,720)	\$ (52,399)	\$ 173,305

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)**(Unaudited)*

	Six Months Ended	
	October 26, 2008	October 28, 2007
Operating activities:		
Net loss	\$ (17,126)	\$ (31,750)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	65,007	65,827
Amortization of deferred financing costs	1,279	1,335
Loss on derivative instruments		399
Write-offs and other charges	5,000	6,526
Stock compensation expense	6,475	3,782
Deferred compensation expense	(47)	132
Loss on extinguishment of debt		13,660
(Gain) loss on disposal of assets	(214)	159
Minority interest		3,973
Changes in operating assets and liabilities:		
Marketable securities	(694)	(855)
Accounts receivable	2,549	(1,606)
Insurance receivable	3,761	868
Income tax receivable	(8,876)	(25,586)
Prepaid expenses and other assets	(6,799)	(11,108)
Accounts payable and accrued liabilities	(1,518)	(6,616)
Net cash provided by operating activities	48,797	19,140
Investing activities:		
Purchase of property and equipment	(30,808)	(134,843)
Payments towards gaming license	(4,000)	(4,165)
Net cash paid for acquisitions		(43,026)
Decrease in restricted cash	1,841	1,998
Net cash used in investing activities	(32,967)	(180,036)
Financing activities:		
Proceeds from debt issuance		700,000
Principal payments on debt	(5,180)	(296,943)
Repayment of senior subordinated notes including \$9,000 call premium		(209,000)
Borrowings (payments) on line of credit, net	(16,552)	(102,279)
Payment of deferred financing costs		(8,378)
Dividend payment to minority interest holder		(397)
Purchase of treasury stock		(1,301)
Proceeds from exercise of stock options including tax benefit	110	6,099
Net cash provided by (used in) financing activities	(21,622)	87,801
Effect of foreign currency exchange rates on cash	(501)	(58)
Net decrease in cash and cash equivalents	(6,293)	(73,153)
Cash and cash equivalents, beginning of period	91,790	188,114
Cash and cash equivalents, end of the period	\$ 85,497	\$ 114,961

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

Notes to Condensed Consolidated Financial Statements

(amounts in thousands, except share and per share amounts)

(Unaudited)

1. Nature of Operations

Isle of Capri Casinos, Inc., a Delaware corporation, was incorporated in February 1990. Except where otherwise noted, the words "we," "us," "our" and similar terms, as well as "Company," refer to Isle of Capri Casinos, Inc. and all of its subsidiaries. We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States and internationally. Our wholly owned subsidiaries own and operate thirteen casino gaming facilities in the United States located in Black Hawk, Colorado; Lake Charles, Louisiana; Lula, Biloxi and Natchez, Mississippi; Kansas City, Caruthersville and Boonville, Missouri; Bettendorf, Davenport, Waterloo and Marquette, Iowa; and Pompano Beach, Florida. Effective January 27, 2008, we own 100% of our operations in Black Hawk, Colorado following the acquisition of our minority partner's 43% interest in those operations. Our international gaming interests include wholly owned casinos in Freeport, Grand Bahamas and Coventry, England and a two-thirds ownership interest in casinos in Dudley and Wolverhampton, England. We also wholly own and operate a pari-mutuel harness racing facility in Pompano Beach, Florida at the site of our Pompano Park casino facility.

2. Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. The accompanying interim condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented, have been made. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended April 27, 2008 as filed with the SEC and all of our other filings, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report, which are available on the SEC's website at www.sec.gov or our website at www.islecorp.com.

Our fiscal year ends on the last Sunday in April. Periodically, this system necessitates a 53-week year. Fiscal 2009 and 2008 are both 52-week years, which commenced on April 28, 2008 and April 30, 2007, respectively.

The condensed consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation. We view each property as an operating segment and all such operating segments have been aggregated into one reporting segment.

Goodwill and Other Intangible Assets - Goodwill represents the excess of the cost of acquired businesses over the net identifiable tangible and intangible assets and is stated at cost, net of impairments, if any. Other intangible assets include values attributable to acquired gaming licenses, customer lists, and trademarks. Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS 142) requires these assets be reviewed for impairment at least annually. We perform our annual impairment testing during our fourth fiscal quarter.

SFAS 142 indicates that a decline in our market capitalization resulting in us having a net book value greater than our market capitalization may be considered an indicator of impairment. The net book value of our stockholders' equity at October 26, 2008 of \$173,305 exceeds our market capitalization for our common stock at October 26,

2008 of approximately \$113,400. Our current evaluation indicates this decline in our market capitalization would not by itself be considered a triggering event requiring us to perform an interim impairment test of our goodwill and other intangible assets. A continued or further decline of our market capitalization, operating performance or other evidence of impairment could require us to record an impairment charge during an interim period prior to conducting our annual impairment test or to record an impairment charge as a part of our annual impairment testing.

3. Long-Term Debt

Long-term debt consists of the following:

	October 26, 2008	April 27, 2008
Senior Secured Credit Facilities:		
July 2007 Credit Facility:		
Revolving line of credit, expires July 26, 2012, interest payable at least quarterly at either LIBOR and/or prime, plus a margin	\$ 114,000	\$ 130,500
Variable rate term loans, mature November 25, 2013, principal and interest payments due quarterly at either LIBOR and/or prime, plus a margin	864,938	869,313
Senior Subordinated Notes:		
7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1	500,000	500,000
Other	6,368	7,476
	1,485,306	1,507,289
Less current maturities	9,225	9,698
Long-term debt	\$ 1,476,081	\$ 1,497,591

July 2007 Credit Facility - On July 26, 2007, we entered into a \$1,350,000 senior secured credit facility (July 2007 Credit Facility), replacing our previous senior credit facility and \$200,000 of 9% senior subordinated notes. The July 2007 Credit Facility is secured on a first priority basis by substantially all of our assets and guaranteed by all of our significant domestic subsidiaries. The July 2007 Credit Facility consists of a \$475,000, five-year revolving line of credit and an \$875,000 term loan facility.

Our net line of credit availability, as limited by our leverage covenant, at October 26, 2008 was approximately \$98,000, after consideration of \$14,878 in outstanding letters of credit. We have an annual commitment fee related to the unused portion of the credit facility of up to 0.5% which is included in interest expense in the accompanying condensed consolidated statements of operations. The weighted average effective interest rate of the July 2007 Credit Facility for the three and six months ended October 26, 2008 was 5.64% and 5.55%, respectively.

The July 2007 Credit Facility includes a number of affirmative and negative covenants. Additionally, we must comply with certain financial covenants including maintenance of a leverage ratio and minimum interest coverage ratio. The July 2007 Credit Facility also restricts our ability to make certain investments or distributions. We are in compliance with the covenants as of October 26, 2008.

7% Senior Subordinated Notes - During 2004, we issued \$500,000 of 7% Senior Subordinated Notes due 2014 (7% Senior Subordinated Notes). The 7% Senior Subordinated Notes are guaranteed, on a joint and several basis, by all of our

significant domestic subsidiaries and certain other subsidiaries as described in Footnote 13. All of the guarantor subsidiaries are wholly owned by us. The 7% Senior Subordinated Notes are general unsecured obligations and rank junior to all of our senior indebtedness. The 7% Senior Subordinated Notes are redeemable, in whole or in part, at our option at any time on or after March 1, 2009, with call premiums as defined in the indenture governing the 7% Senior Subordinated Notes.

The indenture, governing the 7% Senior Subordinated Notes limits, among other things, our ability and our restricted subsidiaries ability to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase stock. The indenture also limits our ability to issue and sell capital stock of subsidiaries, sell assets in excess of specified amounts or merge with or into other companies.

Losses on Early Extinguishment of Debt - In conjunction with the redemption of \$200,000 of 9% Senior Subordinated Notes refinanced by our July 2007 Credit Facility and the replacement of the February 2005 Credit Facility with the July 2007 Credit Facility, \$11,468 and \$13,660 of unamortized debt issuance costs and call premium were recorded as a loss on early extinguishment of debt for three and six month periods ended October 28, 2007, respectively.

Interest Rate Swap Agreements - We have entered into various interest rate swap agreements pertaining to the July 2007 Credit Facility for an aggregate notional value of \$500,000 with maturity dates ranging from fiscal year 2010 to 2014 in order to manage market risk on variable rate term loans outstanding, as well as comply with, in part, requirements under the July 2007 Credit Facility.

These swap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of October 26, 2008, as being fully effective. As a result, there is no impact on our condensed consolidated statement of operations from changes in fair value. As of October 26, 2008, we recorded a liability of \$16,707 in Other long-term liabilities representing the fair market value of the swap agreements and an accumulated unrealized loss of \$10,405, net of a \$6,302 deferred income tax benefit, in Accumulated other comprehensive loss on the condensed consolidated balance sheet. As of October 26, 2008, the weighted average fixed LIBOR interest rate of our interest rate swap agreements was 4.58%.

4. Other Long-Term Liabilities

Coventry Convention Center - We entered into an agreement during fiscal year 2004 to lease space for a new casino, which opened in July 2007, in Coventry, England in the sub-level of the Arena Coventry Convention Center. The convention center was developed, and is owned and operated by a non-affiliated entity and began operations in August 2005.

Because certain structural elements were installed by us during the construction of the space being leased and certain prepaid lease payments were made, we are required to be treated, for accounting purposes only, as the owner of the Arena Coventry Convention Center, in accordance with Emerging Issues Task Force Issue No. 97-10 (EITF 97-10), The Effect of Lessee Involvement in Asset Construction . Accordingly, we have recorded a long-term obligation for £24,404 (\$38,669) and £24,231 (\$48,057) as of October 26, 2008 and April 27, 2008, respectively, even though we; (1) do not own this asset, (2) we are not the obligor on the corresponding long-term obligation and (3) do not participate in or control the operations of the convention center. Upon completion of the convention center we were precluded from accounting for the transaction as a sale and leaseback under SFAS No. 98 Accounting for Leases due to our continuing involvement as a tenant, as a result of our lease prepayments during the construction period of the convention center. Therefore, we are accounting for the transaction using the direct financing method in accordance with SFAS No. 66 Accounting for the Sales of Real Estate .

The Other long-term obligation will be reflected in our condensed consolidated balance sheets until completion of the lease term, when the related fixed assets will be removed from our financial statements. At such time, the net of the remaining obligation over the carrying value of the fixed asset will be recognized as a gain on sale of the facility.

Bettendorf Events Center - We have entered into agreements with the City of Bettendorf, Iowa under which the City has agreed to construct an events center adjacent to our new hotel. We will lease, manage, and provide financial and operating support for the events center. The Company has determined the events center is a transaction to which EITF 97-10 applies. As such, the Company is deemed, for accounting purposes only, to be the owner of the events center during the construction period and at October 26, 2008, we have recorded construction in process of \$13,883 and an other long-term obligation of \$11,754. Total construction costs of the event center, when completed, are estimated to be approximately \$20,000. Under the terms of our agreements for the events center, we have guaranteed certain obligations related to \$13,815 of notes issued by the City of Bettendorf, Iowa for construction of the events center.

5. Write Offs and Other Charges

During the six months ended October 26, 2008, we reached an agreement terminating our agreement for the potential development of a casino project in Portland, Oregon. As a part of this agreement, we agreed to terminate our rights under a land option and to pay a termination fee. As a result of this termination, we recorded a \$6,000 charge consisting of a non-cash write-off of \$5,000 representing our rights under the land option and a \$1,000 termination fee. Under the terms of the agreement, we retain certain rights but no continuing obligations with regard to this development project.

For the three and six months ended October 28, 2007, write-offs and other charges reflected a \$6,526 charge for the termination of a lease to develop a new casino in West Harrison County, Mississippi and the write-off of construction projects in Davenport, Iowa, and Kansas City, Missouri.

6. Earnings per Share of Common Stock

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

	Three Months Ended		Six Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
Numerator:				
Net loss	\$ (13,500)	\$ (24,635)	\$ (17,126)	\$ (31,750)
Denominator:				
Denominator for basic and diluted loss per share - weighted - average shares	31,171,903	30,726,768	31,019,289	30,558,957
Basic and diluted loss per share	\$ (0.43)	\$ (0.80)	\$ (0.55)	\$ (1.04)

Our basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding for the period. As we reported a loss for the three and six month periods ended October 26, 2008 and October 28, 2007, we reported no dilutive effect upon the number of shares outstanding for the calculation of diluted earnings per share for these time periods. Due to the net loss, stock options representing 1,828,721 and 3,238,550 shares which are potentially anti-dilutive were excluded from the calculation of common shares for diluted loss per share for the three

and six month periods ended October 26, 2008 and October 28, 2007, respectively.

7. Fair Value Measurements

In accordance with the fair value hierarchy described in SFAS No. 157 Fair Value Measurements, the following table shows the fair value of our financial assets and financial liabilities that are required to be measured at fair value as of October 26, 2008:

	October 26, 2008	Level 1	Level 2	Level 3
Assets:				
Marketable securities	19,227	19,227		
Liabilities:				
Derivative instruments - interest rate swaps	16,707			16,707

The following section describes the valuation methodologies used to measure fair value, key inputs, and significant assumptions:

Marketable securities The estimated fair values of our marketable securities are based upon quoted prices available in active markets and represent the amounts we would expect to receive if we sold these marketable securities.

Derivative instruments The estimated fair value of our derivative instruments is based on market prices obtained from dealer quotes, which are based on interest yield curves and such quotes represent the estimated amounts we would receive or pay to terminate the contracts.

The following table presents the changes in Level 3 (assets) liabilities measured at fair value on a recurring basis for the six months ended October 26, 2008:

		Derivative Instruments
Balance at April 27, 2008	\$	13,738
Unrealized loss		2,969
Balance at October 26, 2008	\$	16,707

Unrealized losses associated with derivative instruments represent the change in fair value included in other comprehensive loss for derivative instruments qualifying for hedge accounting.

8. Income Taxes

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Our effective income tax rates for the three and six months ended October 26, 2008 and October 28, 2007 were 35.48%, 35.09%, 39.28%, and 39.70%, respectively. Our effective rate is based upon statutory rates applied to our income adjusted for permanent differences. Our actual effective rate will fluctuate based upon the amount of our pretax book income, permanent differences and other items used in the calculation of our income tax benefit.

For the three and six months ended October 26, 2008, our income tax provision included a \$797 and \$693 benefit recognized from a reduction in our FIN 48 liabilities as a result of the settlement of federal income tax audits through 2004.

9. Supplemental Disclosures

Cash Flow For the six months ended October 26, 2008 and October 28, 2007, we made net cash interest payments of \$46,541 and \$55,079, respectively. Additionally, we paid income taxes, net of refunds, of \$409 and \$6,671 during the six months ended October 26, 2008 and October 28, 2007, respectively.

For the six months ended October 26, 2008 and October 28, 2007, the change in accrued purchases of property and equipment in accounts payable increased (decreased) by \$415 and (\$21,283), respectively.

Foreign Currency Translation As of October 26, 2008, the cumulative gain from foreign currency translation included in accumulated other comprehensive loss is \$686. Gains and losses from foreign currency transactions are included in marketing and administrative expense. A gain of \$644 was recorded for the six months ended October 28, 2007.

10. Stock-Based Compensation

We have a stock-based compensation plan as defined in our amended and restated 2000 Long Term Incentive Plan under which we have issued restricted stock and stock options.

Tender Offer - On October 7, 2008, we completed a tender offer whereby certain employees and directors exchanged 2,066,201 of then outstanding stock options for 293,760 shares of restricted common stock and the payment of \$154 in cash to eligible participants in accordance with the terms of the tender offer. Restricted shares issued as part of the tender offer vest three years from the date of issuance. At October 26, 2008 our estimated forfeiture rate for such shares was 20%.

Restricted Stock During October 2008, in addition to the shares of restricted stock issued pursuant to the tender offer described above, we issued 545,080 shares of restricted common stock to employees and directors under the 2000 Long Term Incentive Plan. Restricted stock awarded to employees vests one-third on each anniversary of the grant date and for directors vests one-half on the grant date and one-half on the first anniversary of the grant date. Our estimate of forfeitures for restricted stock for employees is 10%. No forfeiture rate is estimated for directors.

Stock Options - We also have issued incentive stock options and nonqualified stock options which have a maximum term of 10 years and are, generally, exercisable in yearly installments of 20% commencing one year after the date of grant. During the six months ended October 26, 2008, our estimate of forfeitures for executives decreased from 27.2% to 20.8%, and for optionees beneath the executive level, it decreased from 45.7% to 43.8%. The impact of these changes in estimated forfeitures increased expense by \$639 and was recorded as a cumulative adjustment in the condensed consolidated statements of operations for the six months ended October 26, 2008.

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

Six Months Ended

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	October 26, 2008		October 28, 2007
Weighted average expected volatility	42.29%		43.63%
Expected dividend yield	0.00%		0.00%
Weighted average risk-free interest rate	3.50%		4.53%
Weighted average fair value of options granted	\$ 2.73	\$	10.47

Weighted average volatility is calculated using the historical volatility of our stock price over a range of dates equal to the expected term of a grant's options. The weighted average expected term is calculated using historical data that is representative of the option for which the fair value is to be determined. The expected term represents the period of time that options granted are expected to be outstanding. The weighted average risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the approximate period of time equivalent to the grant's expected term.

Stock Compensation Expense - Total stock compensation expense in the accompanying condensed consolidated statements of operations was \$3,755 and \$2,906 for the three months ended October 26, 2008 and October 28, 2007, respectively, and was \$6,475 and \$3,781 for the six months ended October 26, 2008 and October 28, 2007, respectively. We recognize compensation expense for these awards on a straight-line basis over the requisite service period for each separately vesting portion of the award.

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A summary of restricted stock and option activity for the six months ended October 26, 2008 is presented below:

	Restricted Stock	Weighted Average Grant-Date Fair Value	Options	Weighted Average Exercise Price
Outstanding at April 28, 2008		\$	3,832,346	\$ 18.15
Granted	545,080	6.20	210,500	5.60
Exercised			(36,414)	3.03
Vested	(130,784)	6.20		
Tender Offer conversion	293,760	4.70	(2,066,201)	21.18
Forfeited and expired			(111,510)	20.78
Outstanding at October 26, 2008	708,056	5.58	1,828,721	\$ 13.40
As of October 26, 2008:				
Outstanding exercisable options	n/a		767,681	\$ 16.86
Unrecognized compensation cost	\$ 6,829		\$ 3,663	
Weighted average remaining vesting period	2.8 years		4.1 years	

We have 1,772,174 shares available for future issuance under our equity compensation plan as of October 26, 2008.

11. Hurricanes Insurance Settlement Subsequent Event

On December 1, 2008, we reached an agreement with our insurance carriers fully settling our claim related to hurricane Katrina which had damaged our Biloxi, Mississippi property in the fall of 2005. As a result of this settlement, we will receive an additional \$95,000 in insurance proceeds. After first applying the proceeds to our remaining hurricane receivable, we expect to recognize during our third quarter of fiscal 2009, pretax income of approximately \$92,000, relating to both business interruption and other insurance recoveries. We expect to receive the proceeds prior to December 31, 2008.

12. Contingencies

Legal and Regulatory Proceedings - Lady Luck Gaming Corporation (now our wholly owned subsidiary) and several joint venture partners have been defendants in the Greek Civil Court and the Greek Administrative Court in similar lawsuits brought by the country of Greece through its Minister of Tourism (now Development) and Finance. The actions allege that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. Although it is difficult to determine the damages being sought from the lawsuits, the action may seek damages up to that aggregate amount plus interest from the date of the action. Through October 26, 2008, we have accrued an estimated liability, including interest, of \$9,325. The Athens Civil Court of First Instance granted judgment in our favor and dismissed the civil lawsuit. Appeals to both the Athens Civil Appeals Court and the Greek Civil Supreme Court have been dismissed. The Greek Civil Supreme Court denied the appeal on the basis that the Administrative Court is the competent court to hear the matter. During October 2005, after the administrative lawsuit had been dismissed by both the Athens Administrative Court of First Instance and the Athens Administrative Court of Appeals on the basis that the Administrative Court did not have a jurisdiction, the Administrative Supreme Court

remanded the matter back to the Athens Administrative Appeals Court for a hearing on the merits, which court in May 2008 rendered judgment in our favor on procedural grounds and not on the merits. We expect the Greek government to appeal this decision to the Administrative Supreme Court. Therefore, the outcome of this matter is still in doubt and cannot be predicted with any degree of certainty. We intend to continue a vigorous and appropriate defense to the claims asserted in this matter.

We are subject to various contingencies and litigation and other matters and have a number of unresolved claims. Although the ultimate liability of these contingencies, this litigation and these claims cannot be determined at this time, we believe they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact our consolidated financial condition or results of operations.

13. Condensed Consolidating Financial Information

Certain of our wholly owned subsidiaries have fully and unconditionally guaranteed on a joint and several basis, the payment of all obligations under our 7% Senior Subordinated Notes.

The following wholly owned subsidiaries of the Company are guarantors, on a joint and several basis, under the 7% Senior Subordinated Notes: Riverboat Corporation of Mississippi; Riverboat Services, Inc.; CSNO, L.L.C.; St. Charles Gaming Company, Inc.; IOC Holdings, L.L.C.; Grand Palais Riverboat, Inc.; LRGP Holdings, L.L.C.; P.P.I, Inc.; Isle of Capri Casino Colorado, Inc.; IOC-Coahoma, Inc.; IOC-Natchez, Inc.; IOC-Lula, Inc.; IOC-Boonville, Inc.; IOC-Kansas City, Inc.; Isle of Capri Bettendorf, L.C.; Isle of Capri Bettendorf Marina Corp.; Isle of Capri Marquette, Inc.; IOC-Davenport, Inc.; IOC-St. Louis County, Inc.; IOC-Black Hawk County, Inc.; IOC-PA, L.L.C.; IOC-City of St. Louis, L.L.C.; IOC-Manufacturing, Inc.; Riverboat Corporation of Mississippi - Vicksburg; Isle of Capri Black Hawk, L.L.C.; Isle of Capri Black Hawk Capital Corp.; IC Holdings Colorado, Inc.; CCSC/Blackhawk, Inc.; and IOC-Black Hawk Distribution Company, L.L.C.; Casino America of Colorado, Inc.; Black Hawk Holdings, L.L.C. and IOC-Caruthersville, L.L.C. Each of the subsidiaries' guarantees is joint and several with the guarantees of the other subsidiaries.

The following subsidiaries are not guarantors under the 7% Senior Subordinated Notes: Blue Chip Casinos, PLC; Isle of Capri of Jefferson County, Inc.; IOC-Mississippi, Inc.; Casino Parking, Inc.; Isle of Capri-Bahamas, Ltd.; IOC-Bahamas Holding, Inc.; ASMI Management, Inc.; IOC Development Company, L.L.C.; Casino America, Inc.; International Marco Polo Services, Inc.; Isle of Capri of Michigan L.L.C.; IOC Services, L.L.C.; Capri Air, Inc.; Lady Luck Gaming Corp.; Lady Luck Gulfport, Inc.; Lady Luck Vicksburg, Inc.; Lady Luck Biloxi, Inc.; Lady Luck Central City, Inc.; Pompano Park Holdings, L.L.C; JPLA Pelican, L.L.C.; IOC-Cameron, L.L.C.; The Isle of Capri Casinos Limited, IOC Pittsburgh, Inc. and Capri Insurance Corporation.

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Condensed consolidating balance sheets as of October 26, 2008 and April 27, 2008 are as follows (in thousands):

	As of October 26, 2008				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Balance Sheet					
Current assets	\$ 72,597	\$ 93,713	\$ 42,084	\$ (4,707)	\$ 203,687
Intercompany receivables	1,399,280	(342,793)	(13,902)	(1,042,585)	
Investments in subsidiaries	164,988			(164,988)	
Property and equipment, net	12,049	1,217,592	57,457		1,287,098
Other assets	68,196	366,610	6,930		441,736
Total assets	\$ 1,717,110	\$ 1,335,122	\$ 92,569	\$ (1,212,280)	\$ 1,932,521
Current liabilities	\$ 44,521	\$ 103,452	\$ 38,384	\$ (4,707)	\$ 181,650
Intercompany payables	4,711	888,370	149,504	(1,042,585)	
Long-term debt, less current maturities	1,470,188	4,720	1,173		1,476,081
Other accrued liabilities	24,385	28,563	48,537		101,485
Stockholders equity	173,305	310,017	(145,029)	(164,988)	173,305
Total liabilities and stockholders equity	\$ 1,717,110	\$ 1,335,122	\$ 92,569	\$ (1,212,280)	\$ 1,932,521

	As of April 27, 2008				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Balance Sheet					
Current assets	\$ 46,683	\$ 107,235	\$ 45,568	\$ (105)	\$ 199,381
Intercompany receivables	1,441,591	(382,547)	20,394	(1,079,438)	
Investments in subsidiaries	162,496			(162,496)	
Property and equipment, net	18,714	1,238,222	72,050		1,328,986
Other assets	70,358	368,316	7,125		445,799
Total assets	\$ 1,739,842	\$ 1,331,226	\$ 145,137	\$ (1,242,039)	\$ 1,974,166
Current liabilities	\$ 38,368	\$ 107,672	\$ 37,502	\$ (105)	\$ 183,437
Intercompany payables		889,382	190,056	(1,079,438)	
Long-term debt, less current maturities	1,491,063	5,041	1,487		1,497,591
Other accrued liabilities	22,399	24,670	58,057		105,126
Stockholders equity	188,012	304,461	(141,965)	(162,496)	188,012
Total liabilities and stockholders equity	\$ 1,739,842	\$ 1,331,226	\$ 145,137	\$ (1,242,039)	\$ 1,974,166

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Condensed consolidating statements of operations for the three and six months ended October 26, 2008 and October 28, 2007 are as follows (in thousands):

Statement of Operations	For the Three Months Ended October 26, 2008				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Revenues:					
Casino	\$	\$ 249,875	\$ 5,780	\$	\$ 255,655
Rooms, food, beverage and other	32	45,432	3,471	(2,356)	46,579
Gross revenues	32	295,307	9,251	(2,356)	302,234
Less promotional allowances		47,851	243		48,094
Net revenues	32	247,456	9,008	(2,356)	254,140
Operating expenses:					
Casino		37,211	2,466		39,677
Gaming taxes		63,105	617		63,722
Rooms, food, beverage and other	11,003	96,374	10,037	(2,356)	115,058
Management fee expense (revenue)	(6,035)	8,348	(2,313)		
Depreciation and amortization	1,209	29,613	1,446		32,268
Total operating expenses	6,177	234,651	12,253	(2,356)	250,725
Operating income (loss)	(6,145)	12,805	(3,245)		3,415
Interest expense, net	(3,086)	(17,662)	(3,590)		(24,338)
Equity in income (loss) of subsidiaries	(9,258)			9,258	
Income (loss) before income taxes	(18,489)	(4,857)	(6,835)	9,258	(20,923)
Income tax (provision) benefit	4,989	1,681	753		7,423
Net income (loss)	\$ (13,500)	\$ (3,176)	\$ (6,082)	\$ 9,258	\$ (13,500)

Statement of Operations	For the Three Months Ended October 28, 2007				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Revenues:					
Casino	\$	\$ 272,706	\$ 5,576	\$	\$ 278,282
Rooms, food, beverage and other	41	49,173	4,497	(3,190)	50,521
Gross revenues	41	321,879	10,073	(3,190)	328,803
Less promotional allowances		49,633	332		49,965
Net revenues	41	272,246	9,741	(3,190)	278,838
Operating expenses:					
Casino		37,952	3,378		41,330
Gaming taxes		71,401	564		71,965
Rooms, food, beverage and other	18,596	102,241	10,322	(3,190)	127,969
Management fee expense (revenue)	(6,728)	8,789	(2,061)		
Depreciation and amortization	1,769	31,344	2,157		35,270
Total operating expenses	13,637	251,727	14,360	(3,190)	276,534

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Operating income (loss)	(13,596)	20,519	(4,619)
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