

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 |
| | | |
| 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) |
| | | |
| Net cash used in financing activities | (6,556) | (10,098) |
| Effect of foreign currency exchange rates on cash | 28 | - |
| Net increase in cash and cash equivalents | 16,442 | 27,875 |
| Cash and cash equivalents at beginning of period | 134,582 | 80,639 |
| | | |
| Cash and cash equivalents at end of period | \$ 151,024 | \$ 108,514 |

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 | - |
|---|-------|---|

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)

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.

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 | 172 | 481 | 653 |
| Balance, July 25, 2004 | (68) | 1,242 | 1,174 |

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 |
|---|----------------------------------|--|--|--|
|---|----------------------------------|--|--|--|

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 |
|----------------------|-----------|-----------|----------|------------|-----------|

Net cash provided by (used in)

| | | | | | |
|----------------------|---------|----------|---------|-------|----------|
| investing activities | (4,423) | (17,719) | (7,715) | 2,376 | (27,481) |
|----------------------|---------|----------|---------|-------|----------|

Net cash provided by (used in)

| | | | | | |
|----------------------|---------|-------|---------|-------|---------|
| financing activities | (6,952) | 2,087 | (3,261) | 1,570 | (6,556) |
|----------------------|---------|-------|---------|-------|---------|

Effect of foreign currency exchange rates
on

| | | | | | |
|---------------------------|---|----|---|---|----|
| cash and cash equivalents | - | 28 | - | - | 28 |
|---------------------------|---|----|---|---|----|

Net increase (decrease) in cash and

| | | | | | |
|------------------|--------|-------|---------|---|--------|
| cash equivalents | 16,573 | 4,168 | (4,299) | - | 16,442 |
|------------------|--------|-------|---------|---|--------|

Cash and cash equivalents at

| | | | | | |
|-------------------------|--------|--------|--------|---|---------|
| beginning of the period | 33,323 | 70,916 | 30,343 | - | 134,582 |
|-------------------------|--------|--------|--------|---|---------|

Cash and cash equivalents at

| | | | | | |
|-------------------|-----------|-----------|-----------|------|------------|
| end of the period | \$ 49,896 | \$ 75,084 | \$ 26,044 | \$ - | \$ 151,024 |
|-------------------|-----------|-----------|-----------|------|------------|

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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 |
|---|----------------------------------|--|--|--|
|---|----------------------------------|--|--|--|

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 |
|---|----------------------------------|--|--|--|
|---|----------------------------------|--|--|--|

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 |
|--|---|----------------------------------|--|--|--|
|--|---|----------------------------------|--|--|--|

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 |

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

7. Consolidating Condensed Financial Information (continued)

(a) The following subsidiaries of the Company are guarantors of the 7% Senior Subordinated Notes, the 9% Senior Subordinated Notes and the Senior Secured Credit Facility: Riverboat Corporation of Mississippi; Riverboat Corporation of Mississippi-Vicksburg; Riverboat Services, Inc.; CSNO, L.L.C.; Louisiana Riverboat Gaming Partnership; St. Charles Gaming Company, Inc.; IOC Holdings, L.L.C.; Grand Palais Riverboat, Inc.; 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 Marquette, Inc.; IOC-Davenport, Inc.; LL Holding Corporation; and Gemini, Inc. Each of the subsidiaries guarantees is joint and several with the guarantees of the other subsidiaries.

(b) The following subsidiaries are not guarantors of the 7% Senior Subordinated Notes, the 9% Senior Subordinated Notes and the Senior Secured Credit Facility: Isle of Capri Black Hawk, L.L.C.; Isle of Capri Black Hawk Capital Corp.; IC Holdings Colorado, Inc.; CCSC/Blackhawk, Inc.; Colorado Grande Enterprises, Inc.; IOC-Black Hawk Distribution Company, L.L.C.; Blue Chip Casinos, PLC; Isle of Capri of Jefferson County, Inc.; Casino Parking, Inc.; Lady Luck Scott City, Inc.; Isle of Capri-Bahamas, Ltd.; ASMI Management, Inc.; IOC Development Company, L.L.C.; Casino America, Inc.; ICC Corp.; International Marco Polo Services, Inc.; IOC-St. Louis County, Inc.; IOC, L.L.C.; Isle of Capri of Michigan L.L.C.; Isle of Capri Bettendorf Marina Corp.; Water Street Redevelopment Corporation; IOC Services; L.L.C.; Louisiana Horizons, L.L.C.; Capri Air, Inc.; Lady Luck Gaming Corp.; Lady Luck Gulfport, Inc.; Lady Luck Vicksburg, Inc.; Lady Luck Biloxi, Inc.; Lady Luck Central City, Inc.; Pompano Park Holdings, L.L.C.; Casino America of Colorado, Inc.; IOC Black Hawk County, Inc.; JPLA Pelican, L.L.C.; IOC-Cameron, L.L.C.; IOC-PA, L.L.C.; IOC-St. Louis, L.L.C. and Isle of Capri Casinos Limited.

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

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

Executive Overview

We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in growing markets in the United States and internationally. We continue to investigate developing new locations, purchasing existing operations and expanding our current properties. These activities require capital-intensive investments that have long-term return potential. We have intentionally sought geographical diversity to limit the risks caused by weather, regional economic difficulties, and local gaming authorities and regulations. We currently operate casinos in Mississippi, Louisiana, Missouri, Iowa, Colorado and Freeport, Grand Bahama Island. We operate a harness racing track in Florida. Additionally, we have casino investments in Dudley and Wolverhampton, England.

In Mississippi, our four operations contributed 22.3% of our net revenues. In three Mississippi markets, we experienced declines in net revenue comparing the quarter ending July 25, 2004 to the quarter ended July 27, 2003. The Isle-Biloxi is midway through its \$79.0 million transformation, but the negative impact from the construction disruption has increased as the construction has moved to the front entrance of the property. We expect to complete these additions by the spring of 2005. We believe that these additions will allow our Biloxi property to compete more effectively in a highly competitive market. We anticipate the Biloxi market will become more competitive when the Hard Rock casino and hotel opens in spring 2005. Other large-scale projects are in various stages of planning and development. The Isle-Vicksburg also faces strong competition as other area casinos continue to make large capital and marketing investments. The Isle-Lula has faced a relatively weak economy in eastern Arkansas, its main feeder market leading to decreased net revenues. The Isle-Natchez had a modest increase in net revenues in the quarter ending July 25, 2004 compared to the quarter ended July 27, 2003, due in part to increased marketing efforts in the Baton Rouge, Louisiana area.

In Louisiana, our two properties contributed 25.4% of our net revenues. We are facing increased competition in both the Bossier City and Lake Charles markets. The Isle-Bossier is starting to see the benefits of its expansion. Occupancy rates at the all-suite tower hotels have

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increased to 88% for the first quarter of fiscal 2005, from 83% for the fourth fiscal quarter of 2004, driving increased net revenues and operating income, despite a flat and highly competitive market. In Lake Charles, we substantially completed renovation of the Grand Palais by early July 2004. However, the construction disruption, coupled with low table hold percentages, had a negative impact leading to decreased net revenues and operating income.

In Iowa, our three casinos contributed 19.4% of our net revenue. We experienced quarter over quarter increases in net revenue, operating income and operating margin at each of our Iowa properties. We believe that we are well positioned to continue to take advantage of the overall strength of the Iowa market. The market has drawn strength from improving overall economic conditions and from a significantly higher gaming tax burden in neighboring Illinois.

In Missouri, our two properties contributed 14.9% of our net revenue. We experienced quarter over quarter increases in net revenue in Kansas City. Operating income decreased as a result of increased depreciation from the property's recent expansion. The capital expansion benefited the-Isle Kansas City as it faces aggressive marketing by nearby properties and by the opening of an expansion by a

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neighboring competitor. The Isle-Boonville continues to provide strong operating results. As a result, we are in the planning stages for construction of a new 120-room hotel at the location.

In Colorado, our three casino operations contributed 13.1% of our net revenue. The negative impact of construction disruption at our two Black Hawk operations persisted through the first quarter. Effective July 25, 2004, the Isle-Black Hawk amended certain financial covenants in its Senior Secured Credit Facility, and anticipates being in compliance with the amended covenants in the future. We are prioritizing our construction efforts to mitigate disruptions as quickly as possible. However, we expect the effects of the disruptions to continue until spring 2005.

Our international operations account for a small percentage of our overall operations. We are, however, excited about the growth opportunities in the United Kingdom. We believe we are in a strong position to take advantage of the possible liberalization of gaming laws in the United Kingdom. Additionally, through our two-thirds ownership in Blue Chip Casinos, PLC we are constructing an additional pub-style casino in Walsall, England. We also operate the Isle-Our Lucaya as a higher-end player incentive. The ramp up of this property has been slower than we expected. To improve our results, we continue efforts to better utilize the marketing potential of this property.

Critical Accounting Estimates

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

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made
- those estimates where, had we chosen different estimates or assumptions, the resulting differences would have had a material impact on our financial condition, changes in financial condition or results of operations; and
- those estimates that are reasonably likely to change from period to period, resulting in a material impact on our financial condition, changes in financial condition or results of operations.

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

Goodwill and Other Intangible Assets

At July 25, 2004, we had goodwill and other intangible assets with indefinite useful lives of \$406.4 million, representing 26% of total assets. Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142) requires goodwill and intangible assets with indefinite useful lives to be tested for impairment annually or more frequently if an event occurs or circumstances change that may reduce the fair value of the company below its carrying value. We completed our annual impairment test as required under SFAS 142 in the fourth quarter of fiscal year 2004 and determined that goodwill and other indefinite-lived intangible assets were not impaired. For properties with

goodwill and/or other intangible assets with indefinite lives, this test requires the comparison of the estimated fair value of each property to its carrying value. The estimated fair value includes estimates of future cash flows that are based on reasonable and supportable assumptions and represent our best estimates of the cash flows expected to result from the use of the assets and their

eventual disposition. Changes in estimates or application of alternative assumptions and definitions could produce significantly different results.

Property and Equipment

At July 25, 2004, we had property and equipment of \$914.8 million, representing 59% of total assets. We capitalize the cost of property and equipment. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Costs incurred in connection with our all properties other capital improvements, program, as detailed in the Liquidity and Capital Resources section below, include individual capital expenditures related to the purchase of furniture and equipment and to the upgrade of hotel rooms, restaurants and other areas of our properties. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as our current operating strategy. Future events such as property expansions, new competition and new regulations could result in a change in the manner in which we are using certain assets requiring a change in the estimated useful lives of such assets. We evaluate long-lived assets for impairment using Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In assessing the recoverability of the carrying value of property and equipment, we make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

Self-Insurance Liabilities

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

Income Tax Assets and Liabilities

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

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

Contingencies

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

The Company routinely faces challenges from federal and other tax authorities regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. The Company records reserves for loss contingencies associated with the various filing positions that are probable and subject to reasonable estimates.

Slot Club Awards

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

Results of Operations

ISLE OF CAPRI CASINOS, INC. CONSOLIDATED OPERATING DATA (In thousands)

Three months ended

| | July 25, 2004 | July 27, 2003 | Variance | Variance \$ % |
|---------------------------|-------------------|-------------------|-------------------|------------------|
| Net revenues: | | | | |
| Mississippi | \$ 62,676 | \$ 66,773 | \$ (4,097) | (6.1%) |
| Louisiana | 71,437 | 72,218 | (781) | (1.1%) |
| Missouri | 41,914 | 40,250 | 1,664 | 4.1% |
| Iowa | 54,442 | 52,519 | 1,923 | 3.7% |
| Colorado | 36,792 | 42,136 | (5,344) | (12.7%) |
| International | 8,347 | - | 8,347 | N/M |
| Corporate and other | 5,264 | 11,855 | (6,591) | (55.6%) |
| Total net revenues | \$ 280,872 | \$ 285,751 | \$ (4,879) | (1.7%) |
| Operating income: | | | | |
| Mississippi | \$ 8,887 | \$ 11,266 | \$ (2,379) | (21.1%) |
| Louisiana | 10,239 | 11,637 | (1,398) | (12.0%) |
| Missouri | 6,253 | 6,342 | (89) | (1.4%) |
| Iowa | 12,167 | 10,141 | 2,026 | 20.0% |
| Colorado | 8,836 | 11,550 | (2,714) | (23.5%) |
| International | (1,655) | (291) | (1,364) | (468.7%) |
| Corporate and other | (7,853) | (4,861) | (2,992) | (61.6%) |
| Operating income | \$ 36,874 | \$ 45,784 | \$ (8,910) | (19.5%) |

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Our results of operations for the three months ended July 25, 2004 reflect the consolidated operations of all of our subsidiaries and include the following properties: the Isle-Bossier City, the Isle-Lake Charles, the Isle-Biloxi, the Isle-Lula, the Isle-Natchez, the Isle-Vicksburg, the Isle-Kansas City, the Isle-Boonville, the Isle-Bettendorf, the Isle-Marquette, the Rhythm City-Davenport, the Isle-Black Hawk, the

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Colorado Central Station-Black Hawk, the Colorado Grande-Cripple Creek, the Isle-Our Lucaya, Blue Chip-Dudley, Blue Chip-Wolverhampton and Pompano Park. The Isle-Our Lucaya began operations in December of 2003. We purchased a two-thirds interest in Blue Chip Casinos, PLC (Blue Chip) in November of 2003. Blue Chip owns and operates a pub-style casino in Dudley, England, and a pub-style casino in Wolverhampton, England, which began operations in April of 2004. Blue Chip is also constructing a pub-style casino at Walsall, which it expects to be operational in September 2004.

Our results of operations for the three months ended July 27, 2003 reflect the consolidated operations of all of our subsidiaries and include the following properties: the Isle-Bossier City, the Isle-Lake Charles, the Isle-Biloxi, the Isle-Lula, the Isle-Natchez, the Isle-Vicksburg, the Isle-Kansas City, the Isle-Boonville, the Isle-Bettendorf, the Isle-Marquette, the Rhythm City-Davenport, the Isle-Black Hawk, the Colorado Central Station-Black Hawk, the Colorado Grande-Cripple Creek, the Lady Luck-Las Vegas, and Pompano Park. The Colorado Central Station-Black Hawk and the Colorado Grande-Cripple Creek were acquired on April 22, 2003. On October 30, 2002, we completed the sale of the Lady Luck-Las Vegas. We operated the casino until September 3, 2003, when the purchaser's designated gaming operator received regulatory approval.

We believe that our historical results of operations may not be indicative of our future results of operations because of the substantial present and expected future increase in competition for gaming customers in each of our markets as new gaming facilities open and existing gaming facilities expand or enhance their facilities. We also believe that our results are subject to seasonality. We believe that our operating results are materially affected by the economy and weather. Results for the first quarter of the fiscal year may not be indicative of the results of the full fiscal year. Traditionally, we have experienced stronger results in the third and fourth fiscal quarters when compared to the first and second fiscal quarters.

Three Fiscal Months Ended July 25, 2004 Compared to Three Fiscal Months Ended July 27, 2003

Gross revenues for the quarter ended July 25, 2004, were \$338.2 million, which included \$284.2 million of casino revenue, \$12.9 million of rooms revenue, \$4.4 million of pari-mutuel commissions and \$36.7 million of food, beverage and other revenue. This compares to gross revenue for the quarter ended July 27, 2003, of \$343.0 million, which included \$288.8 million of casino revenue, \$11.9 million of rooms revenue, \$4.7 million of pari-mutuel commissions and \$37.6 million of food, beverage and other revenue.

Casino revenue decreased 1.6% primarily as a result of the sale of the Lady Luck-Las Vegas, which provided \$6.0 million of casino revenue in the first quarter of fiscal 2004. Additionally, quarter over quarter casino revenues decreased substantially at the Isle-Black Hawk and the Colorado Central Station-Black Hawk due to significant construction disruptions at these properties. We expect significant disruptions to persist into the spring of 2005. Likewise, casino revenue was negatively impacted by construction at the Isle-Lake Charles. The renovations at the Isle-Lake Charles were substantially completed by the quarter ended July 25, 2004. We believe these renovations will make the property more competitive in a highly competitive market. These decreases were partially offset by the addition of the Isle-Our Lucaya. Additionally, we saw an increase in casino revenue at the Isle-Kansas City as we benefited from an increase in the gaming capacity at that location. Room revenue increased 9.0% quarter over quarter primarily the result of an additional 265 all-suite hotel rooms at the Isle-Bossier City location. Pari-mutuel commissions earned at Pompano Park in Florida decreased by 5.9%. The decrease is primarily attributable to the general decrease of onsite wagering on horse races. Food and beverage revenue remained essentially flat quarter over quarter. Other revenue decreased 19.1% primarily due to proceeds from litigation settlement received in the first quarter of fiscal 2004.

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Promotional allowances, which are made up of complimentary revenue, cash points and coupons, are rewards that we give our loyal customers to encourage them to continue to patronize our properties. These allowances increased by 0.2% in the first fiscal quarter of 2005 as compared to the first fiscal quarter of 2004.

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Casino operating expenses for the first quarter of fiscal 2005 decreased 1.6% when compared to the first quarter of fiscal 2004. These expenses are primarily comprised of salaries, wages and benefits and other operating expenses of the casinos. The decrease in casino operating expenses is attributable to the finalization of the sale and discontinuation of gaming operations at the Isle-Las Vegas, on September 3, 2003.

Gaming taxes increased 1.2% in the quarter ended July 25, 2004 as compared to the quarter ended July 23, 2003. Gaming taxes as a percentage of casino revenue increased from 21.6% in the fiscal quarter ended July 27, 2003 to 22.2% of casino revenue in the quarter ended July 25, 2004. In Iowa, effective July 1, 2004, we faced an additional assessment of 2.0% of gross gaming revenues due to a tax increase enacted in that state.

Room expenses in the fiscal quarter ended July 25, 2004 increased 10.3% when compared to the fiscal quarter ended July 27, 2003. These expenses directly relate to the cost of providing hotel rooms. Other costs of the hotels are shared with the casinos and are presented in their respective expense categories. The increase in expenses was due primarily to the additional room occupancy at the Isle-Bossier City.

Pari-mutuel expenses remained essentially flat quarter over quarter despite a decrease in pari-mutuel commissions.

Food, beverage and other expenses increased 9.0% quarter over quarter. These expenses consist primarily of the cost of goods sold, salaries, wages and benefits and other operating expenses of these departments. Food, beverage and other expenses as a percentage of gross food, beverage and other revenues increased from 22.8% for the fiscal quarter ended July 27, 2003 to 25.5% for the fiscal quarter ended July 25, 2004. These expenses increased partly as a result of higher demand from patrons of the Isle-Bossier City's new hotel rooms as well as the addition of a Kitt's Kitchen restaurant. The addition of the Isle-Our Lucaya also increased food, beverage and other expenses.

Marine and facilities expenses increased 6.5% quarter over quarter. These expenses include salaries, wages and benefits, operating expenses of the marine crews, insurance, public areas, housekeeping and general maintenance of the riverboats and pavilions. The increase was primarily due to the addition of the Isle-Our Lucaya and repairs to the Isle-Vicksburg's parking lot in the first fiscal quarter of 2005.

Marketing expenses increased 1.5% quarter over quarter. The increase in marketing expenses is primarily due to the addition of the Isle-Our Lucaya, which is partially offset by the finalization of the sale of the Lady Luck-Las Vegas. Marketing expenses include salaries, wages and benefits of the marketing and sales departments, as well as promotions, direct mail, advertising, special events and entertainment.

Administrative expenses decreased 0.2% quarter over quarter. These expenses include administration and human resource department expenses, rent, new development activities, professional fees and property taxes. The decrease is primarily due to the finalization of the sale and discontinuation of all operations at the Lady Luck-Las Vegas and savings from combining some administrative functions of our Isle-Bettendorf and Rhythm City Davenport properties. Conversely, new development expenses have increased as we pursue new opportunities. In addition to our continued investment in activities in the United Kingdom and the St. Louis area, we anticipate increased levels of spending in support of the Florida slot initiative currently scheduled for a vote on that state's ballot in November 2004.

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Depreciation and amortization expense increased 9.3% quarter over quarter. The increases were primarily due to the capital additions at the Isle-Bossier City, the Isle-Lake Charles and the Isle-Kansas City being placed into service.

Net interest expense decreased 17.5% quarter over quarter due primarily to a decrease in our effective interest rates and an increase in interest income. Interest expense primarily relates to indebtedness incurred in connection with the acquisition of property, equipment, leasehold improvements and berthing and concession rights. Additionally, net interest expense of \$2.2 million related to the Isle-Black Hawk is included in net interest expense in the quarter ended July 25, 2004. This compares to interest expense of \$2.9 million for the quarter ended July 27, 2003.

Our effective tax rate was 38.8% for the quarter ended July 25, 2004, compared to 38% for the quarter ended July 27, 2003, which excludes an unrelated party's portion of the Colorado Central Station-Black Hawk's and the Colorado Grande-Cripple Creek's income taxes. The increase in the rate, over the comparable fiscal quarter is attributable to the effect of permanent items on lower earnings for the quarter.

Liquidity and Capital Resources

At July 25, 2004, we had cash and cash equivalents of \$151.0 million, compared to \$134.6 million in cash and cash equivalents at April 25, 2004, the end of our last fiscal year. The \$16.4 million increase in cash is the net result of \$50.5 million net cash provided by operating activities, \$27.5 million net cash used in investing activities and \$6.6 million net cash used in financing activities. In addition, we had \$272.0

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million under lines of credit. Of this amount, \$1.0 million is limited to use by Blue Chip Casinos, PLC and is currently outstanding. The remaining \$271.0 million was available, consisting of \$235.0 million in unused credit capacity with the revolving loan commitment on our Senior Secured Credit Facility, \$32.0 million in unused credit capacity with the Isle-Black Hawk's Senior Secured Credit Facility (limited to the Isle-Black Hawk), and \$4.0 million from other lines of credit. We believe that existing cash, cash flow from operations and available borrowings under our lines of credit will be sufficient to support our working capital needs, planned capital expenditures and debt service requirements for the foreseeable future.

Cash Flow from Investing Activities

We invested \$27.8 million in property and equipment during the three fiscal months ended July 25, 2004. The following table reflects expenditures for property and equipment on major projects and the estimated costs to complete such projects:

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For the three months ended July 25, 2004, we spent \$6.1 million on other capital improvements and \$6.5 million on our slot program. The other capital improvements at all of our properties consists of numerous capital expenditures related to the purchase of furniture and equipment and the upgrade of hotel rooms, restaurants and other areas of our properties.

| | | Actual | | | |
|-----------------------------|--|-----------------------|-----------------|-------------|-----------|
| | | Fiscal Year | Three Months | Fiscal Year | Remaining |
| | | Ended | Ended | Ending | |
| | | 4/25/04 | 07/25/04 | 4/24/05 | |
| | | (dollars in millions) | | | |
| <u>Property</u> | <u>Project</u> | | | | |
| Isle-Biloxi | Construct hotel & parking facility | \$ 21.1 | \$ 4.1 | \$ 25.7 | \$ 22.1 |
| Isle-Bossier City | Construct hotel & entertainment center | 38.2 | 0.1 | 1.4 | 3.9 |
| Isle-Bossier City | Renovate casino | 0.4 | 0.3 | 3.1 | 1.2 |
| Isle-Marquette | Construct hotel | - | - | 3.3 | 2.6 |
| Isle-Lake Charles | Renovate & expand casino | 10.9 | 2.7 | 1.9 | - |
| Isle-Kansas City | Renovate & expand casino | 8.2 | - | - | - |
| Isle-Black Hawk (57% owned) | Expansion & public improvements | 8.0 | 8.0 | 38.0 | 38.6 |
| Coventry | Construct leasehold improvements | - | 0.5 | 18.4 | 76.0 |
| Other UK properties | Construct leasehold improvements | - | 0.1 | 4.8 | - |
| All | Slot program | 29.6 | 6.5 | 21.9 | - |
| All | Other capital improvements | 35.2 | 6.1 | 26.7 | - |
| | | \$ 151.6 | \$ 28.4 | \$ 145.2 | \$ 144.4 |

In August 2002, we announced plans for a \$135.0 million expansion at three of our casinos of which \$76.0 million has been spent to date. The expansion plan will include upgraded and additional amenities at the Isle-Biloxi, the Isle-Bossier City and the Isle-Marquette. This plan, which will utilize cash flow from operations, reinforces our commitment to develop our portfolio of properties to feature a more resort-oriented product.

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The Isle-Biloxi plan, estimated at \$79.0 million, will include an additional 400 hotel rooms, an Isle-branded Kitt's Kitchen restaurant, a 12,000 square-foot convention/entertainment center, an expanded pool and spa area and a 1,000-space parking facility, which was completed on December 19, 2003. The parking garage provides a podium for future expansion of an additional hotel tower. Construction on the hotel began in January of 2004 with projected completion in spring of 2005.

The Isle-Bossier City plan, estimated at \$50.0 million, was substantially complete and open by January 25, 2004. This expansion featured a hotel tower with 265 rooms, a Kitt's Kitchen restaurant, a new pool and deck, a spa and a 12,000 square-foot convention/entertainment center.

The Isle-Marquette property phase of the plan will include \$6.0 million in improvements including a 60-room Inn-at-the-Isle and improved parking. The construction will commence once we have received local and regulatory permits and will last approximately 16 months.

The Isle-Black Hawk is investing approximately \$94.0 million in Black Hawk to significantly increase covered parking for both properties, expand the Isle-Black Hawk, add hotel rooms and a Kitt's Kitchen branded restaurant and connect the properties by means of a skywalk. Additionally, the Isle-Black Hawk will fund and construct public improvements, which include extending Main Street to connect directly to Colorado Route 119, approximately one half mile closer to Denver. We expect completion of the casino expansion, skywalks and restaurant and partial completion of the parking garage by spring of 2005. Substantial completion of the public improvements is planned for summer 2005. Completion of the hotel and the remainder of the parking garage is scheduled for spring of 2006.

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As announced in December 2003, we entered into an agreement to develop and operate an Isle of Capri themed casino in a commercial leisure complex currently under development in Coventry, England. We plan to spend approximately \$18.9 million in fiscal 2005 for design and architectural fees and mechanical and electrical build-out of the leased space. The remaining \$76.0 million, of the total \$94.9 million approved for the project, will be spent during fiscal 2006 and 2007 to construct and equip the gaming floor and related casino areas.

As we expand our international operations, we plan to invest approximately \$4.9 million during fiscal 2005 in other properties in the United Kingdom. Such spending will be primarily for design and architecture fees, as well as initial construction costs.

On March 15, 2004, we announced that we had been selected by the Illinois Gaming Board as the successful bidder in a federal bankruptcy court auction for the 10th Illinois gaming license conducted pursuant to an agreement approved by, among other parties, the Illinois Attorney General. We bid \$518.0 million to acquire by merger the stock of a company in bankruptcy that owns the license. If this merger is completed, we expect to spend approximately \$150.0 million in addition to amounts already expended at the site in Rosemont, Illinois to construct a single-level, 40,000 square foot casino, with 1,200 gaming positions, restaurants, an entertainment venue and retail space. We plan to finance the Rosemont, Illinois project through contributions of equity from Isle of Capri Casinos, Inc. and from a limited number of individual investors, who in the aggregate will own 20% as required by Illinois law, in an amount sufficient to allow non-recourse financing for the remainder of the cash needed to complete the project. The federal bankruptcy court has confirmed the plan of reorganization pursuant to which the merger would be consummated. The merger remains subject to certain conditions, including a finding of suitability and final approval by the Illinois Gaming Board as well as certain other conditions. In addition, the Illinois Attorney General has raised issues with regard to the appropriateness of the Village of Rosemont as a host community and the Illinois Gaming Board's selection of our bid, and has announced that she intends to attempt to recommence administrative proceedings with a proposed remedy of revoking the license from the current owner. The Illinois Attorney General has also filed a suit against the Illinois Gaming Board seeking to enjoin the Board from conducting a suitability investigation of us in connection with the merger provided for under the plan of reorganization. There can be no assurance that the foregoing conditions will be satisfied or that we will be able to acquire the license. Additionally, 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 we have capitalized \$1.6 million related to acquisition of this license. Should we fail to obtain the license and are thereby unable to complete the project, this amount would be expensed.

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

Cash Flow from Financing Activities

Contractual Obligations and Commercial Commitments

There have been no material changes in contractual obligations and commercial commitments from what we reported in our Form 10-K for the year ended April 25, 2004.

During the three fiscal months ended July 25, 2004, we used net cash of \$6.6 million primarily in the following financing activities:

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- We made net borrowings under the revolving credit facility provided for by our Senior Secured Credit Facility and lines of credit of \$2.5 million.
- We made principal payments on our Senior Secured Credit Facility and other debt of \$1.5 million.
- We purchased 364,895 shares of our common stock at a total cost of \$6.4 million.
- We made cash distributions to a minority partner totaling \$1.2 million.

On April 26, 2002, we entered into a Senior Secured Credit Facility, which refinanced our prior facility. This Senior Secured Credit Facility consists of 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. We are required to make quarterly principal payments on the \$250.0 million term loan portion of our Senior Secured Credit Facility. Such payments are currently \$0.6 million per quarter, which started in June 2002 and will increase to \$59.4 million per quarter beginning in June 2007. In addition, we are required to make substantial quarterly interest payments on the outstanding balance of our Senior Secured Credit Facility. The proceeds were used to refinance \$336.8 million of the prior facility.

Our Senior Secured Credit Facility, among other things, limits our ability to borrow money, make capital expenditures, use assets as security in other transactions, make restricted payments or restricted investments, incur contingent obligations, sell assets and enter into leases and transactions with affiliates. In addition, our credit facility requires us to meet certain financial ratios and tests, including: a minimum consolidated net worth test, a maximum consolidated total leverage test, a maximum consolidated senior leverage test, and a minimum consolidated fixed charge coverage test.

As of July 25, 2004, we had \$235.0 million of unused credit capacity with the revolving loan commitment on our Senior Secured Credit Facility, \$32.0 million of unused credit capacity with the Isle-Black Hawk's Senior Secured Credit Facility (limited to the Isle-Black Hawk) and \$4.0 million of available credit from other lines of credit. The revolving loan commitment is a variable rate instrument based on, at our option, LIBOR or our lender's prime rate plus the applicable interest rate spread, and is effective through April 2007. Our lines of credit are also at variable rates based on our lender's prime rate and are subject to annual renewal. There is no assurance that these sources will in fact provide adequate funding for the expenditures described above or that planned capital investments will be sufficient to allow us to remain competitive in our existing markets.

Effective July 25, 2004, the Isle-Black Hawk amended certain financial covenants in its Senior Secured Credit Facility, and anticipates being in compliance with the amended covenants in the future.

We are in compliance with all covenants contained in our senior and subordinated debt instruments as of July 25, 2004. If we do not maintain compliance with these covenants, the lenders under the Senior Secured Credit Facility have the option (in some cases, after the expiration of contractual grace periods), but not the obligation, to demand immediate repayment of all or any portion of the obligations outstanding under the Senior Secured Credit Facility. Any significant deterioration of earnings could affect certain of our covenants. Adverse changes in our credit rating or stock price would not impact our borrowing costs or covenant compliance under existing debt instruments. Future events, such as a significant increase in interest rates can be expected to increase our costs of borrowing under our Senior Secured Credit Facility. The indentures governing our 7% Senior Subordinated Notes and our 9% Senior Subordinated Notes limit, among other things, our ability to borrow money, create liens, make restricted payments and sell assets.

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

of the facilities at such locations.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Isle-Black Hawk Senior Secured Credit Facility

The Isle-Black Hawk has 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. These interest rate swap agreements terminate as follows: \$40.0 million in each of fiscal 2005 and 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.

The following table provides information at April 25, 2004 about our financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. There have been no material changes to this data since April 25, 2004.

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

| Fiscal year (dollars in millions) | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total | Fair Value 4/25/2004 |
|---|--------|--------|--------|----------|--------|------------|----------|-------------------------|
| Liabilities | | | | | | | | |
| Long-term debt, including current portion | | | | | | | | |
| Fixed rate | \$ 2.6 | \$ 1.7 | \$ 1.1 | \$ 1.2 | \$ 1.3 | \$ 705.1 | \$ 713.0 | \$ 708.0 |
| Average interest rate | 7.6% | 7.6% | 7.6% | 7.6% | 7.6% | 7.6% | | |
| Variable rate | \$ 5.4 | \$ 5.0 | \$ 5.1 | \$ 360.4 | \$ - | \$ - | \$ 375.9 | \$ 375.9 |
| Average interest rate (1) | 4.2% | 5.8% | 6.9% | 7.6% | - | - | | |

Interest Rate Derivative Financial Instruments Related to Debt

| | | | | | | | | |
|-----------------------------------|---------|---------|------|------|------|------|---------|----------|
| Interest rate swaps | | | | | | | | |
| Pay fixed/receive variable (2) | \$ 40.0 | \$ 40.0 | \$ - | \$ - | \$ - | \$ - | \$ 80.0 | \$ (0.7) |
| Average pay rate | 2.8% | 1.5% | - | - | - | - | | |
| Average receive rate | 1.6% | 3.2% | - | - | - | - | | |

(1) Represents the annual average LIBOR from the forward yield curve at April 25, 2004, plus the weighted average margin above LIBOR on all consolidated variable rate debt.

(2) Fair value represents the amount we would have to pay the counter party if we were to terminate the swap agreements at April 25, 2004.

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ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of July 25, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as of July 25, 2004.

CHANGES IN INTERNAL CONTROLS

During the fiscal quarter ended July 25, 2004, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In April 1994, one of our 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 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, this 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, we remain unable to determine what effect, if any, the suit would have on our 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 sought 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 City and the Bossier Parish School Board, in lieu of payment of a per-passenger boarding fee. The case was tried on April 6, 2004. The trial court rendered a ruling in favor of the defendants, finding that, although the legislature amended the boarding fee statute in 2003 so as to prohibit future boarding fee agreements, any pre-existing agreement between a riverboat and either the City of Bossier City or the Bossier Parish Police Jury will remain valid and in effect until its expiration. Louisiana Riverboat Gaming Partnership's contract expired on April 14, 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. We will continue to vigorously defend this matter as may be required.

Lady Luck Gaming Corporation (now our wholly owned subsidiary) 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 we are 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 our favor and dismissed the lawsuit, but

the Ministry of Tourism 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 appeals. The Ministry elected to appeal this matter further. We are 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. We intend to continue a vigorous and appropriate defense to the claims asserted in this matter.

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On December 30, 2002, the County of Jefferson, Missouri initiated a lawsuit in the Circuit Court of Jefferson County, Missouri against us 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. We believe the claims against us to be without merit and we intend to vigorously and appropriately defend the claims asserted in this matter.

We are subject to various contingencies and engaged in various other litigation matters that 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 that they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.

| <u>Period</u> | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans (1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans (1) |
|--------------------------------|---|------------------------------------|---|--|
| April 26, 2004 to May 23, 2004 | - | \$ - | - | 853,100 |
| May 24, 2004 to June 27, 2004 | 42,711 | 17.73 | 42,711 | 810,389 |
| June 28, 2004 to July 25, 2004 | 322,184 | 17.40 | 322,184 | 488,205 |
| Total | 364,895 | \$ 17.45 | 364,895 | 488,205 |

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Documents Filed as Part of this Report.

1. Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under exhibit 31 of Item 601 of Regulation S-K.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under exhibit 31 of Item 601 of Regulation S-K.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) filed under Exhibit 32 of Item 601 of Regulation S-K.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) filed under Exhibit 32 of Item 601 of Regulation S-K.

2. Reports on Form 8-K.

During the quarter ended July 25, 2004, the Company filed the following reports on Form 8-K:

Current Report on Form 8-K filed on June 17, 2004, regarding Item 12 announcing the financial results of the fourth fiscal quarter ended April 25, 2004.

Current Report on Form 8-K filed on April 28, 2004, regarding Item 12 announcing lowering its estimate of earnings for the fourth quarter ended April 25, 2004.

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SIGNATURE

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

ISLE OF CAPRI CASINOS, INC.

Dated: August 26, 2004

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

INDEX TO EXHIBITS

EXHIBIT NUMBER **DESCRIPTION**

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