

ISLE OF CAPRI CASINOS INC  
Form 10-Q  
December 02, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 23, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

39532  
(Zip Code)

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

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

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

As of November 18, 2005 the Company had a total of 33,680,460 shares of Common Stock outstanding (which includes 3,908,730 shares held by us in treasury).

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FORM 10-Q  
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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical or current facts included in this report on Form 10-Q or incorporated by reference herein, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe” or “continue” or the negative thereof or variations thereof or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

Important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from our expectations, are further discussed in the Section “Risk Factors” in our annual report on Form 10-K for the fiscal year ended April 24, 2005, as such factors may be updated in subsequent SEC filings. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- the effect of significant competition from other gaming operations in the markets in which we operate;
- the effects of changes in gaming authority regulations;
- the effects of increases in gaming taxes;
- the effects of changes in non-gaming regulation;
- loss of key personnel;
- the impact of inclement weather on our patronage;
- the success and timing of repairs and reconstruction of the Gulf Coast region following the effects of Hurricane Katrina;
- the timing and amount of collection of insurance receivable;
- the success and timing of repairs and reconstruction in Lake Charles, Louisiana following the effects of Hurricane Rita and in Pompano Beach, Florida following the effects of Hurricane Wilma;
- the effects of construction and related disruptions associated with expansion projects at existing facilities;
- the effects of increases in energy and fuel prices;
- general and regional economic conditions;
- the effects of limitations imposed by our substantial indebtedness; and
- political conditions and regulatory uncertainties in the foreign countries in which we operate or are pursuing development opportunities.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

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

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

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

<u>ASSETS</u>	October 23, 2005	April 24, 2005
Current assets:		\$
Cash and cash equivalents	\$ 125,495	146,743
Marketable securities	19,016	16,016
Accounts receivable, net	15,377	15,460
Insurance receivable	70,196	-
Deferred income taxes	8,681	8,607
Deferred state income taxes	988	988
Prepaid expenses and other assets	23,846	16,634
Total current assets	263,599	204,448
Property and equipment, net	1,030,246	1,026,906
Other assets:		
Goodwill	340,254	343,851
Other intangible assets	92,829	72,364
Deferred financing costs, net	17,830	19,461
Restricted cash	2,208	2,193
Prepaid deposits and other	27,063	15,665
Total assets	\$ 1,774,029	\$ 1,684,888
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Current maturities of long-term debt	\$ 6,951	\$ 7,501
Accounts payable	52,050	42,456
Accrued liabilities:		
Interest	10,921	10,312
Payroll and related	49,338	47,806
Property and other taxes	29,196	21,061
Income taxes	3,611	1,160
Progressive jackpots and slot club awards	15,174	15,045
Other	49,693	34,321
Total current liabilities	216,934	179,662
Long-term debt, less current maturities	1,205,112	1,148,617
Deferred income taxes	43,594	45,544
Deferred state income taxes	9,329	9,329
Other accrued liabilities	22,675	17,115
Minority interest	25,789	23,225
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000 shares authorized; none issued	-	-
Common stock, \$.01 par value; 45,000 shares authorized; shares issued and outstanding: 33,624 at October 23, 2005 and 33,528 at April 24, 2005	336	335
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued	-	-

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Additional paid-in capital	149,030	148,177
Unearned compensation	(1,830)	(1,488)
Retained earnings	145,898	146,133
Accumulated other comprehensive income (loss)	(598)	2,858
	292,836	296,015
Treasury stock, 3,909 shares at October 23, 2005 and 3,607 shares at April 24, 2005	(42,240)	(34,619)
Total stockholders' equity	250,596	261,396
Total liabilities and stockholders' equity	\$ 1,774,029	\$ 1,684,888

See notes to the unaudited consolidated financial statements.

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

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

	Three Months Ended		Six Months Ended	
	October 23, 2005	October 24, 2004	October 23, 2005	October 24, 2004
Revenues:				
Casino	\$ 252,579	\$ 273,564	\$ 536,430	\$ 555,644
Rooms	12,903	12,309	27,203	25,212
Pari-mutuel commissions and fees	3,779	3,362	8,951	7,801
Food, beverage and other	32,325	36,248	70,895	72,440
Gross revenues	301,586	325,483	643,479	661,097
Less promotional allowances	53,644	57,712	114,003	114,606
Net revenues	247,942	267,771	529,476	546,491
Operating expenses:				
Casino	40,612	46,658	87,592	91,838
Gaming taxes	56,372	61,810	119,143	124,570
Rooms	2,922	2,586	5,939	5,414
Pari-mutuel	3,200	2,749	7,116	6,219
Food, beverage and other	7,948	8,691	17,088	17,785
Marine and facilities	17,259	16,191	34,099	33,266
Marketing and administrative	78,055	80,488	163,393	158,764
Other charges	151	192	184	247
Hurricane related charges, net	1,200	-	1,200	-
Depreciation and amortization	25,383	25,725	50,652	49,246
Total operating expenses	233,102	245,090	486,406	487,349
Operating income	14,840	22,681	43,070	59,142
Interest expense	(21,394)	(18,958)	(41,604)	(36,353)
Interest income	1,092	-	2,166	-
Minority interest	(1,892)	(1,549)	(3,948)	(3,682)
Income (loss) from continuing operations before income taxes				
	(7,354)	2,174	(316)	19,107
Income tax expense (benefit)	(3,135)	1,989	(139)	8,675
Income (loss) from continuing operations	(4,219)	185	(177)	10,432
Income (loss) from discontinued operations, net of income taxes	-	263	(58)	625
Net income (loss)	\$ (4,219)	\$ 448	\$ (235)	\$ 11,057
Earnings (loss) per common share-basic:				
Income (loss) from continuing operations	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.35
Income (loss) from discontinued operations, net of income taxes	-	0.01	(0.00)	0.02



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Net income (loss)	\$	(0.14)	\$	0.02	\$	(0.01)	\$	0.37
Earnings (loss) per common share-diluted:								
Income (loss) from continuing operations	\$	(0.14)	\$	0.01	\$	(0.01)	\$	0.34
Income (loss) from discontinued operations, net of income taxes		-		0.01		(0.00)		0.02
Net income (loss)	\$	(0.14)	\$	0.01	\$	(0.01)	\$	0.36

See notes to the unaudited consolidated financial statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compen- sation	Retained Earnings	Accum. Other Compre- hensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, April 24, 2005	33,528 \$	335 \$	148,177 \$	(1,488) \$	146,133 \$	2,858 \$	(34,619) \$	261,396
Net loss	-	-	-	-	(235)	-	-	(235)
Unrealized gain on interest rate swap contracts net of income taxes of \$158	-	-	-	-	-	237	-	237
Foreign currency translation adjustments	-	-	-	-	-	(3,693)	-	(3,693)
Comprehensive income (loss)	-	-	-	-	-	-	-	(3,691)
Exercise of stock options, including income tax benefit of \$204	96	1	279	-	-	-	873	1,153
Purchase of treasury stock	-	-	-	-	-	-	(8,494)	(8,494)
Grant of nonvested stock	-	-	574	(574)	-	-	-	-
Amortization of unearned compensation	-	-	-	232	-	-	-	232
Balance, October 23, 2005	33,624 \$	336 \$	149,030 \$	(1,830) \$	145,898 \$	(598) \$	(42,240) \$	250,596

See notes to the unaudited consolidated financial statements.

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

	Six Months Ended	
	October 23, 2005	October 24, 2004
<b>Operating activities:</b>		
Net income (loss)	\$ (235)	\$ 11,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,652	49,457
Amortization of deferred financing costs	1,661	2,028
Amortization of unearned compensation	232	328
Deferred income taxes	(2,212)	-
Minority interest	3,948	3,682
Impairment charges	60,051	-
Changes in operating assets and liabilities:		
Accounts receivable	(713)	519
Insurance receivable	(70,196)	-
Income tax payable	2,656	9,535
Prepaid expenses and other assets	(7,445)	(5,763)
Accounts payable and accrued liabilities	16,400	15,060
Net cash provided by operating activities	54,799	85,903
<b>Investing activities:</b>		
Purchase of property and equipment	(108,659)	(80,156)
Acquisition of license	(5,775)	-
Purchase of short-term investments, net of sales	(2,922)	-
Payments on notes receivable	12	(1,023)
Restricted cash	(173)	(70)
Prepaid deposits and other	(7,128)	(172)
Net cash used in investing activities	(124,645)	(81,421)
<b>Financing activities:</b>		
Proceeds from debt	50,000	1,153
Net increase in line of credit	10,000	1,634
Principal payments on debt and cash paid to retire debt	(3,166)	(4,851)
Payment of deferred financing costs	(40)	(280)
Purchase of treasury stock	(8,494)	(6,360)
Proceeds from exercise of stock options	949	891
Cash distributions to minority partner	-	(2,309)
Net cash provided by (used in) financing activities	49,249	(10,122)
<b>Effect of foreign currency exchange rates on cash</b>	<b>(651)</b>	<b>31</b>
Net decrease in cash and cash equivalents	(21,248)	(5,609)
Cash and cash equivalents at beginning of period	146,743	134,582
Cash and cash equivalents at end of period	\$ 125,495	\$ 128,973

See notes to the unaudited consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>October 23, 2005</b>	<b>October 24, 2004</b>
<b>Supplemental disclosure of cash flow information:</b>		
Net cash payments for:		
Interest	\$ 41,859	\$ 36,323
Income taxes	(593)	(814)
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Other:		
Construction costs funded through accrued liabilities	7,484	6,115
Acquisition of license	16,000	-

See notes to the unaudited consolidated financial statements.

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

**1. Nature of Operations**

Isle of Capri Casinos, Inc. (the “Company” or “Isle of Capri”) was incorporated as a Delaware corporation on February 14, 1990. The Company, through its subsidiaries, is engaged in the business of developing, owning and operating branded gaming facilities and related lodging and entertainment facilities in growing markets in the United States and internationally. The Company wholly owns and operates twelve casinos in eleven locations in the United States located in Lake Charles and Bossier City, Louisiana; Lula, Biloxi, Vicksburg and Natchez, Mississippi; Kansas City and Boonville, Missouri; and Bettendorf, Davenport and Marquette, Iowa. The Company also owns a 57% interest in, and receives a management fee for operating, two gaming facilities in Black Hawk, Colorado from Isle of Capri Black Hawk, L.L.C. All but two of these gaming facilities operate under the name “Isle of Capri” and feature the Company’s distinctive tropical island theme. The Company receives a significant amount of its revenue from customers within 50 miles of the properties. If economic conditions in these areas were to decline materially or additional casino licenses were awarded in these locations, the Company’s results of operations could be materially affected. In addition, the Company’s operations are dependent on the continued licensing or qualification of the Company and such licensing and qualifications are reviewed periodically by the gaming authorities in the state of operation. The Company’s international gaming interests include a wholly owned casino in Freeport, Grand Bahama, a two-thirds ownership interest in Blue Chip Casinos, PLC (“Blue Chip”) which owns casinos in Dudley, Wolverhampton and Walsall, England and a casino to be opened in Coventry, England in the latter part of calendar 2006. The Company also wholly owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida.

On May 6, 2005, the Company signed a casino management and related development and option agreements with resort developer Eighth Wonder to manage the casino included in Eighth Wonder’s proposal for a new integrated resort complex in Singapore should Eighth Wonder be selected to develop such complex. During May 2005, the Company paid and expensed a \$4.0 million payment to Eighth Wonder pursuant to the terms of these agreements.

On May 11, 2005, the Company was selected by the Iowa Racing and Gaming Commission as the successful applicant for a gaming license in Waterloo, Iowa. The Company plans to spend approximately \$134.4 million (including \$20.0 million in license costs) in constructing a single level casino with 1,300 gaming positions, three of its signature restaurants, a 200-room hotel and 1,000 parking spaces. The Company expects the construction project to take approximately 20 months following the receipt of necessary permits and licenses.

**Interim Financial Information**

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and six months ended October 23, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended April 24, 2005.

**Fiscal Year-End**

The Company’s fiscal year ends on the last Sunday in April. This fiscal year creates more comparability of the Company’s quarterly operations, by generally having an equal number of weeks (13) and weekend days (26) in each

quarter. Periodically, this system necessitates a 53-week year. Fiscal 2006 commenced on April 25, 2005 and ends on April 30, 2006.

**ISLE OF CAPRI CASINOS, INC.**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies**

**New Pronouncements**

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). Generally, the accounting method required by SFAS 123(R) is similar to the accounting method required by SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) must be adopted for interim periods beginning in the first annual reporting period that begins after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company is required to adopt SFAS 123(R) for reporting periods beginning on May 1, 2006, but is continuing to evaluate its option to early adopt.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

- 1) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
- 2) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate for the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company is currently evaluating the two recognition methods available under SFAS 123(R) to determine which method it will adopt.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The ongoing impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share below. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Accordingly, the adoption of SFAS 123(R)'s fair value method is expected to have a significant impact on its result of operations, although it will have no impact on the Company's overall financial position.

**3. Stock-Based Compensation**

The Company applies the recognition and measurement principles of APB 25 and related Interpretations in accounting for the Company's three stock-based employee compensation plans. No stock-based employee compensation expense is reflected in net income related to stock option grants as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure"



("SFAS 148"), to stock-based employee compensation.

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

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

	Three Months Ended		Six Months Ended	
	October 23, 2005	October 24, 2004	October 23, 2005	October 24, 2004
	(In thousands, except per share data)			
Income (loss) from continuing operations	\$ (4,219)	\$ 185	\$ (177)	\$ 10,432
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,119)	(516)	(2,141)	(1,780)
Pro forma Net Income before discontinued operations	\$ (5,338)	\$ (331)	\$ (2,318)	\$ 8,652
Net Income (loss) from discontinued operations	\$ -	\$ 263	\$ (58)	\$ 625
Pro forma Net Income (loss) after discontinued operations	\$ (5,338)	\$ (68)	\$ (2,376)	\$ 9,277
<b>Earnings per share: Basic</b>				
<b>As Reported</b>				
Income (loss) from continuing operations	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.35
Income (loss) from discontinued operations	\$ -	\$ 0.01	\$ (0.00)	\$ 0.02
Net Income (loss)	\$ (0.14)	\$ 0.02	\$ (0.01)	\$ 0.37
<b>Earnings per share: Basic Pro Forma</b>				
Income (loss) from continuing operations	\$ (0.18)	\$ (0.01)	\$ (0.08)	\$ 0.29
Income (loss) from discontinued operations	\$ -	\$ 0.01	\$ (0.00)	\$ 0.02
Net Income (loss)	\$ (0.18)	\$ (0.00)	\$ (0.08)	\$ 0.31
<b>Earnings per share: Diluted</b>				
<b>As Reported</b>				
Income (loss) from continuing operations	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.34
Income (loss) from discontinued operations	\$ -	\$ 0.01	\$ (0.00)	\$ 0.02
Net Income (loss)	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.36
<b>Earnings per share: Diluted Pro Forma</b>				
Income (loss) from continuing operations	\$ (0.18)	\$ (0.01)	\$ (0.08)	\$ 0.28
	\$ -	\$ 0.01	\$ (0.00)	\$ 0.02

Income (loss) from discontinued  
operations

Net Income (loss)	\$	(0.18)	\$	(0.00)	\$	(0.08)	\$	0.30
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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:

<b>Fiscal Quarter</b>	<b>Risk-Free Interest Rate</b>	<b>Original Expected Life</b>	<b>Expected Volatility</b>	<b>Expected Dividends</b>
October 23, 2005	4.00%	6.26 years	55.8%	None
October 24, 2004	3.97%	6.38 years	55.5%	None

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

**4. Hurricanes and Related Charges**

On August 29, 2005, Hurricane Katrina struck the Gulf Coast of Mississippi and Louisiana, which resulted in significant damage to the Company's casino facility and its casino barge under construction in Biloxi, Mississippi. The casino facility has been closed since that time; however, the Company's hotel facility has subsequently reopened. The Company, subject to the receipt of necessary permits and licenses, plans to reopen an interim casino in space available within the hotel until a permanent facility is built. The interim casino is expected to be opened within 60 days.

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

During the quarter ended October 23, 2005, hurricane related charges were recognized related to impairment charges of \$60.1 million for assets damaged or destroyed by the hurricanes and \$11.3 million for incremental costs incurred related to the hurricanes and the property operating costs related to the periods affected by the hurricanes. These amounts are included in the hurricane related charges, net in the accompanying statements of income. The Company has insurance coverage related to property damage, incremental costs and property operating expenses it incurs due to damage caused by the hurricanes. The hurricane related charges, net account also includes the anticipated recoveries expected from its insurance carriers of \$70.2 million related to the impairments recognized related to the damaged property, the incremental costs and property operating expenses that management believes are probable of collection. When the Company and its insurance carriers agree on the final amount of the insurance proceeds the Company is entitled to, the Company will also record any related gain in this account. The Company's insurance policies also provide coverage for the loss of profits caused by the storms. Any lost profit recoveries will be recognized when agreed to with the insurance carrier and will be reflected in the related properties' revenues.

**5. Goodwill and Other Intangible Assets**

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

Balance at April 24, 2005	\$ 343,851
Sale of Colorado Grande Enterprises, Inc	(2,897)
Foreign currency translation	(700)
Balance at October 23, 2005	\$ 340,254

Other intangible assets consist of the following:

	<b>October 23, 2005</b>	<b>April 24, 2005</b>
Gaming licenses	\$ 75,143	\$ 53,379
Trademarks and player database	17,686	18,985
Other intangible assets, net	\$ 92,829	\$ 72,364

During the six months ended October 23, 2005, the Company recorded \$20.1 million of gaming license fees related to the Waterloo, Iowa project and \$0.6 million of gaming license fees related to the Pompano, Florida project.

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

**6. Long-Term Debt**

The following is a brief description of the Company's and its subsidiaries' borrowing arrangements. Certain of these arrangements contain financial covenants. The Company and its subsidiaries were in compliance with all covenants as of October 23, 2005 and April 24, 2005.

	<b>October 23, 2005</b>	<b>April 24, 2005</b>
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	298,000	249,375
Revolver	-	-
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below):		
Variable rate term loan Tranche A	-	-
Variable rate term loan Tranche B	-	-
Variable rate term loan Tranche C	162,525	163,350
Revolver	36,000	26,000
Special Assessment BID Bonds, non-recourse to Isle of Capri Casinos, Inc. (described below)	532	590
Blue Chip Credit Facility (6.50% at July 24, 2005) due January 2009; non-recourse to Isle of Capri Casinos, Inc. (described below)	6,236	6,942
Variable rate TIF Bonds due to City of Bettendorf (described below)	3,511	3,875
Variable rate General Obligation Bonds due to City of Davenport (described below)	1,675	1,830
12.5% note payable, due in monthly installments of \$125, including interest, beginning October 1997 through October 2005	-	494
Other	3,584	3,662
	1,212,063	1,156,118
Less current maturities	6,951	7,501
Long-term debt	\$ 1,205,112	\$ 1,148,617

**7% Senior Subordinated Notes**

On March 3, 2004, the Company issued \$500.0 million of 7% senior subordinated notes due 2014. The 7% senior subordinated notes are guaranteed by all of the Company's significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk and the Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 10. The 7% senior subordinated notes are general unsecured obligations and rank junior to all existing and future senior indebtedness, senior to any subordinated indebtedness and equally with all existing

and future senior subordinated debt, including the \$200.0 million in aggregate principal amount of the existing 9% senior subordinated notes. Interest on the 7% senior subordinated notes is payable semi-annually on each March 1 and September 1 through maturity. The 7% senior subordinated notes are redeemable, in whole or in part, at the Company's option at any time on or after March 1, 2009, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period beginning on March 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2009	103.500%
2010	102.333%
2011	101.167%
2012 and thereafter	100.000%

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

**6. Long-Term Debt (continued)****7% Senior Subordinated Notes (continued)**

The Company issued the 7% senior subordinated notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries' stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

**9% Senior Subordinated Notes**

On March 27, 2002, the Company issued \$200.0 million of 9% senior subordinated notes due 2012. The 9% senior subordinated notes are guaranteed by all of the Company's significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk and Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 10. The 9% senior subordinated notes are general unsecured obligations and rank junior to all existing and future senior indebtedness, senior to any subordinated indebtedness and equally with all existing and future senior subordinated debt, including the \$500.0 million in aggregate principal amount of the existing 7% senior subordinated notes. Interest on the 9% Senior Subordinated Notes is payable semi-annually on each March 15 and September 15 through maturity. The 9% Senior Subordinated Notes are redeemable, in whole or in part, at the Company's option at any time on or after March 15, 2007, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period beginning on March 15 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2007	104.500%
2008	103.000%
2009	101.500%
2010 and thereafter	100.000%

The Company issued the 9% senior subordinated notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries' stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

**Senior Secured Credit Facility**

On February 4, 2005, the Company refinanced its senior secured credit facility. The refinanced facility provides for a \$400.0 million revolving credit facility maturing on February 4, 2010 and a \$250.0 million term loan facility maturing on February 4, 2011 (or February 6, 2012 if the Company elects to refinance its existing 9% Senior Subordinated Notes currently due March 2012). On August 3, 2005, the Company exercised its option for a delayed draw term loan for an additional \$50.0 million. The draw was accessed in anticipation of funding the Company's ongoing development projects. At the Company's and the lead arranger's mutual discretion, the Company may increase the revolver and/or term loan, in an aggregate amount up to \$200.0 million, subject to certain conditions. The term loans are payable in

quarterly installments beginning on March 31, 2005 and ending on February 4, 2011, unless extended as described above. The revolving credit facility may bear interest at the higher of (1) 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 1.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 2.75%. The term loan may bear interest at the higher of (1) 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 0.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of 1.75%.



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

**6. Long-Term Debt (continued)**

**Senior Secured Credit Facility (continued)**

The proceeds from the refinancing were used to pay down the existing senior secured credit facility term loan, of which \$205.6 million in principal and \$0.7 million in accrued interest were outstanding as of February 4, 2005. The remainder of the undrawn facility will be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditures and investments.

Pursuant to the refinancing, the Company recognized a loss before income taxes on early extinguishment of debt of \$5.3 million, due to the write-off of previously deferred financing costs related to its existing senior secured credit facility. The costs associated with the new senior secured credit facility have been deferred and are being amortized over the term of the new facility.

The senior secured credit facility provides for certain covenants, including those of a financial nature. The senior secured credit facility is secured by liens on substantially all of the Company's assets and guaranteed by all of its restricted subsidiaries. As of October 23, 2005, the Company was in compliance with all covenants related to this facility.

The weighted average effective interest rate of total debt outstanding under the senior secured credit facility at October 23, 2005 was 5.68%.

At October 23, 2005, the Company had \$298.0 million outstanding under the senior secured term loan credit facilities and no amounts outstanding under the revolving credit facility.

**Isle-Black Hawk Senior Secured Credit Facility**

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 Isle-Black Hawk 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 higher of 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 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 higher of 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 2.00% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 3.00%.

The Isle-Black Hawk senior secured credit facility as amended provides for certain covenants including those of a financial nature. The Isle-Black Hawk was in compliance with all of the covenants as of October 23, 2005. The Isle-Black Hawk senior secured credit facility is secured by liens on the Isle-Black Hawk's assets.

The weighted average effective interest rate of total debt outstanding under the Isle-Black Hawk Senior Secured Credit Facility at October 23, 2005 was 7.16%.



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

**6. Long-Term Debt (continued)**

**Interest Rate Swap Agreements**

The Isle-Black Hawk has interest rate swap agreements with an aggregate notional value of \$80.0 million, or 49.2% of its variable rate term debt, outstanding under the Isle-Black Hawk's senior secured credit facility as of October 23, 2005. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until the fourth fiscal quarter of 2008, thus reducing the impact of interest rate changes on future interest expense. The interest rate swap agreements terminate as follows: \$40.0 million in fiscal 2006 and \$40.0 million in fiscal 2008. The Company evaluates the effectiveness of these hedged transactions on a quarterly basis. No portion of the hedging instruments was ineffective during the quarter ended October 23, 2005. Accordingly, no gains or losses have been recognized on these cash flow hedges.

At October 23, 2005, the Isle-Black Hawk does not expect to reclassify any net gains or losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to the payment of variable interest associated with the floating rate debt.

**Isle-Black Hawk Special Assessment BID Bonds**

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

**Blue Chip Credit Facility**

In 2004, Blue Chip entered into an agreement with the Bank of Scotland to borrow up to £3.4 million (\$6.0 million) to fund its casino development program. As of October 23, 2005, £3.4 million (\$6.0 million) has been borrowed. The term loan is to be repaid in quarterly payments commencing July 2005, and is to be repaid in April 2009. The interest rate is either, at Blue Chip's option, the Bank of Scotland's base rate or LIBOR plus a margin of 1.75 percent.

**Isle-Bettendorf TIF Bonds**

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



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

**6. Long-Term Debt (continued)****Isle-Davenport General Obligation Bonds**

In 2002, the Isle-Davenport entered into an agreement with the City of Davenport whereby the City of Davenport would construct and own a skybridge connecting to the Isle-Davenport's facility, allowing safer access across the street and railroad tracks. The project has been completed by the City of Davenport and at a cost of \$6.4 million, with the Isle-Davenport obligated to pay \$1.8 million. In February 2004, the City of Davenport issued \$1.8 million in ten-year general obligation tax-exempt bonds at an average interest rate of 3.1%. The Isle-Davenport is required to make annual payments of principal and interest to the City of Davenport to retire the bonds.

**Lines of Credit**

As of October 23, 2005, the Company had \$390.1 million of availability under its lines of credit.

**7. Comprehensive Income (Loss)**

Comprehensive income (loss) consists of the following:

	<b>Unrealized gain (loss) on interest rate swaps</b>	<b>Foreign currency translation adjustment (In thousands)</b>	<b>Accumulated other comprehensive income (loss)</b>
Balance, April 24, 2005	\$ 105	\$ 2,753	\$ 2,858
Net change	74	(4,045)	(3,971)
Balance, October 23, 2005	\$ 179	\$ (1,292)	\$ (1,113)

As a result of the operations of the Company's international subsidiaries with functional currencies other than the U.S. dollar, a resulting currency translation adjustment is necessary. The assets and liabilities of the Company's international subsidiaries are translated using the exchange rate in effect at the balance sheet date, with the resulting translation adjustment recognized as accumulated other comprehensive income.

For the interest rate swap agreements, the fair value of the estimated interest differential between the applicable future variable rates and the interest rate swap agreement contracts, expressed in present value terms, totaled \$1.0 million, and is recorded as a current asset. There was no effect on income related to hedge ineffectiveness.

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

**8. Contingencies**

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 paid a fixed amount plus a percentage of revenues 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 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 an issue in the litigation, and which will remain in effect until its expiration on January 1, 2007, unless extended by the parties. The plaintiffs appealed the trial court's ruling to the Second Circuit Court of Appeal, and the appellate court reversed and remanded the matter. The Company, along with the other defendants, filed writ applications to appeal the matter to the Louisiana Supreme Court. The court has granted two applications for appeal-one filed on behalf of Bossier City and Bossier Parish, and another filed on behalf of the Bossier Sheriff's Office and the Greater Bossier Economic Development Foundation. A hearing has not been scheduled. The Company will continue to vigorously defend this matter as may be required.

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 \$7.8 million as of October 23, 2005, based on published exchange rates). Although it is difficult to determine the damages being sought from the lawsuit, the action may seek damages up to that aggregate amount plus interest from the date of the action. The Athens Civil Court of First Instance granted judgment in the Company's favor and dismissed the lawsuit, but the Ministry appealed the matter and the appeal was heard before the Athens Appeal Court of First Instance. The Athens Appeal Court issued certified copies of judgments denying the Ministry's appeal. The Ministry elected to appeal this matter further to the Supreme Court. During October 2005, the Administrative Supreme Court remanded the matter back to the Athens Administrative Appeals Court for a hearing on the merits, which is expected to take place at the end of 2006 or early 2007. The civil matter is set for hearing before the Greek Supreme Court during May 2006.

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.

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 alleged damages in excess of \$10.0 million. The Company increased its reserve for this suit by \$6.1 million in the quarter ended October 23, 2005. Subsequent to the end of the quarter, the parties reached a settlement that is within the amounts reserved.

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.

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

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 23, 2005</b>	<b>October 24, 2004</b>	<b>October 23, 2005</b>	<b>October 24, 2004</b>
	(In thousands, except per share data)			
Numerator:				
Net income (loss)	\$ (4,219)	\$ 448	\$ (235)	\$ 11,057
Numerator for basic earnings per share - income (loss) available to common stockholders				
	\$ (4,219)	\$ 448	\$ (235)	\$ 11,057
Effect of diluted securities	-	-	-	-
Numerator for diluted earnings per share - income (loss) available to common stockholders after assumed conversions				
	\$ (4,219)	\$ 448	\$ (235)	\$ 11,057
Denominator:				
Denominator for basic earnings per share - weighted - average shares				
	30,097	29,532	30,105	29,610
Effect of dilutive securities Employee stock options and nonvested restricted stock				
	-	1,010	-	1,036
Denominator for diluted earnings per share - adjusted weighted - average shares and assumed conversions				
	30,097	30,542	30,105	30,646
Basic earnings (loss) per share	\$ (0.14)	\$ 0.02	\$ (0.01)	\$ 0.37
Diluted earnings (loss) per share	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.36

The Company computed basic earnings per share by dividing net income (loss) by the weighted average number of shares outstanding for the period. The Company determined diluted earnings (loss) per common at October 23, 2005, as net income (loss) divided by the weighted average number of shares outstanding for the period, after applying the "if-converted" method to determine any incremental shares associated stock options outstanding. For the three and six months ended October 23, 2005, all potential common shares related to employee stock options were considered anti-dilutive as the Company recorded a net loss during the periods. If anti-dilutive shares were included for the three and six months ended October 23, 2005, the impact would have been a reduction of 281,053 shares and 267,069 shares, respectively. Anti-dilutive stock options were excluded from the calculation of potential common shares. If anti-dilutive shares were included in the calculation for the three and six months ended October 24, 2004, the impact would have been a reduction of 759,595 shares and 701,262 shares, respectively.



Any options with an exercise price in excess of the average market price of the Company's common stock during the periods presented are not considered when calculating the dilutive effect of stock options for diluted earnings per share calculations.

#### **10. Income Taxes**

The Company's effective tax rate from continuing operations for the year to date ending October 23, 2005 was 60.0% compared to 44.1% for the year to date ending October 24, 2004, which, in each case, excludes an unrelated party's portion of the Colorado Central Station-Black Hawk's income taxes. This increase in effective rate over the comparable prior fiscal period is attributable to the effect of permanent items on lower forecasted earnings for the entire fiscal year.

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

**11. 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 and \$500.0 million 7% Senior Subordinated Notes due 2014. 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 October 23, 2005 and April 24, 2005, statements of income for the three and six months ended October 23, 2005 and October 24, 2004 and statements of cash flows for the six months ended October 23, 2005 and October 24, 2004.

**ISLE OF CAPRI CASINOS, INC.**  
**CONSOLIDATING CONDENSED GUARANTOR SUBSIDIARIES, NON-GUARANTOR SUBSIDIARIES,**  
**AND PARENT COMPANY FINANCIAL INFORMATION**  
**AS OF OCTOBER 23, 2005 AND APRIL 24, 2005 AND FOR**  
**THE THREE AND SIX MONTHS ENDED OCTOBER 23, 2005 AND OCTOBER 24, 2004**  
(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 October 23, 2005				
<b>Balance Sheet</b>					
Current assets	\$ 53,079	\$ 168,605	\$ 65,873	\$ (23,958)	\$ 263,599
Intercompany receivables	955,410	(317,763)	34,123	(671,770)	-
Investments in subsidiaries	235,383	264,986	(4,846)	(495,523)	-
Property and equipment, net	5,445	754,684	270,117	-	1,030,246
Other assets	20,636	408,327	55,721	(4,500)	480,184
Total assets	\$ 1,269,953	\$ 1,278,839	\$ 420,988	\$ (1,195,751)	\$ 1,774,029
Current liabilities	\$ 27,213	\$ 137,473	\$ 79,682	\$ (27,434)	\$ 216,934
Intercompany payables	-	585,821	84,553	(670,374)	-
Long-term debt, less current maturities	995,500	7,417	202,195	-	1,205,112
Other accrued liabilities	(3,717)	79,275	40	-	75,598
Minority interest	-	-	-	25,789	25,789
Stockholders' equity	250,957	468,853	54,518	(523,732)	250,596
Total liabilities and stockholders' equity	\$ 1,269,953	\$ 1,278,839	\$ 420,988	\$ (1,195,751)	\$ 1,774,029

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

**11. 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
<b>For the Three Months Ended October 23, 2005</b>					
<b>Statement of Income</b>					
Revenues:					
Casino	\$ -	\$ 203,571	\$ 49,008	\$ -	\$ 252,579
Rooms, food, beverage and other	11	41,619	10,232	(2,855)	49,007
Gross revenues	11	245,190	59,240	(2,855)	301,586
Less promotional allowances	-	43,485	10,159	-	53,644
Net revenues	11	201,705	49,081	(2,855)	247,942
Operating expenses:					
Casino	139	32,976	7,497	-	40,612
Gaming taxes	-	47,053	9,319	-	56,372
Rooms, food, beverage and other	11,247	78,817	23,769	(3,098)	110,735
Management fee expense (revenue)	(7,147)	7,259	(112)	-	-
Depreciation and amortization	297	21,203	3,883	-	25,383
Total operating expenses	4,536	187,308	44,356	(3,098)	233,102
Operating income (loss)	(4,525)	14,397	4,725	243	14,840
Interest expense	(17,886)	(13,637)	(5,072)	15,201	(21,394)
Interest income	14,008	323	1,962	(15,201)	1,092
Interest expense, net	(3,878)	(13,314)	(3,110)	-	(20,302)
Minority interest	-	-	-	(1,892)	(1,892)
Equity in income (loss) of subsidiaries	1,329	(4,304)	(1,049)	4,023	-
Income (loss) from continuing operations before income taxes	(7,074)	(3,221)	566	2,374	(7,354)
Income tax expense (benefit)	(2,855)	-	(280)	-	(3,135)
Income (loss) from continuing operations	(4,219)	(3,221)	846	2,374	(4,219)
Loss from discontinued operations, net of taxes	-	-	-	-	-
Net income (loss)	\$ (4,219)	\$ (3,221)	\$ 846	\$ 2,374	\$ (4,219)



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

**11. 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 Six Months Ended October 23, 2005				
<b>Statement of Income</b>					
Revenues:					
Casino	\$	\$	\$	\$	\$
	-	36,921	99,509	-	536,430
Rooms, food, beverage and other	94	90,865	21,968	(5,878)	107,049
Gross revenues	94	527,786	121,477	(5,878)	643,479
Less promotional allowances	-	93,378	20,625	-	114,003
Net revenues	94	434,408	100,852	(5,878)	529,476
Operating expenses:					
Casino	249	71,718	15,625	-	87,592
Gaming taxes	-	100,375	18,768	-	119,143
Rooms, food, beverage and other	21,146	167,489	46,630	(6,246)	229,019
Management fee expense (revenue)	(15,147)	15,301	(154)	-	-
Depreciation and amortization	632	42,416	7,604	-	50,652
Total operating expenses	6,880	397,299	88,473	(6,246)	486,406
Operating income (loss)	(6,786)	37,109	12,379	368	43,070
Interest expense	(35,406)	(28,908)	(9,726)	32,436	(41,604)
Interest income	30,007	627	3,968	(32,436)	2,166
Interest expense, net	(5,399)	(28,281)	(5,758)	-	(39,438)
Minority interest	-	-	-	(3,948)	(3,948)
Equity in income (loss) of subsidiaries	12,020	(4,831)	(2,111)	(5,078)	-
Income (loss) from continuing operations before income taxes	(165)	3,997	4,510	(8,658)	(316)
Income tax expense (benefit)	70	-	(209)	-	(139)
Income (loss) from continuing operations	(235)	3,997	4,719	(8,658)	(177)
Loss from discontinued operations, net of taxes	-	-	(58)	-	(58)
Net income (loss)	\$ (235)	\$ 3,997	\$ 4,661	\$ (8,658)	\$ (235)



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

**11. Consolidating Condensed Financial Information (continued)**

	<b>Isle of Capri Casinos, Inc. (Parent Obligor)</b>	<b>(a) Guarantor Subsidiaries</b>	<b>(b) Non- Guarantor Subsidiaries</b>	<b>Consolidating and Eliminating Entries</b>	<b>Isle of Capri Casinos, Inc. Consolidated</b>
	For the Six Months Ended October 23, 2005				
<b>Statement of Cash Flows</b>					
Net cash provided by (used in)					
operating activities	\$ (48,360)	\$ 89,215	\$ 19,022	\$ (5,078)	\$ 54,799
Net cash provided by (used in)					
investing activities	(13,736)	(84,677)	(31,593)	5,361	(124,645)
Net cash provided by (used in)					
financing activities	41,041	(719)	9,210	(283)	49,249
Effect of foreign currency exchange rates on					
cash and cash equivalents	-	-	(651)	-	(651)
Net increase (decrease) in cash and					
cash equivalents	(21,055)	3,819	(4,012)	-	(21,248)
Cash and cash equivalents at					
beginning of the period	53,584	57,661	35,498	-	146,743
Cash and cash equivalents at					
end of the period	\$ 32,529	\$ 61,480	\$ 31,486	\$ -	\$ 125,495

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

**11. 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
<b>For the Three Months Ended October 24, 2004</b>					
<b><u>Statement of Income</u></b>					
Revenues:					
Casino	\$ -	\$ 232,110	\$ 41,454	\$ -	\$ 273,564
Rooms, food, beverage and other	58	44,895	6,966	-	51,919
Gross revenues	58	277,005	48,420	-	325,483
Less promotional allowances	-	47,498	10,214	-	57,712
Net revenues	58	229,507	38,206	-	267,771
Operating expenses:					
Casino	-	38,954	7,704	-	46,658
Gaming taxes	-	54,125	7,685	-	61,810
Rooms, food, beverage and other	6,242	86,119	35,445	(16,909)	110,897
Management fee expense (revenue)	(7,552)	7,984	(432)	-	-
Depreciation and amortization	361	22,418	2,946	-	25,725
Total operating expenses	(949)	209,600	53,348	(16,909)	245,090
Operating income (loss)	1,007	19,907	(15,142)	16,909	22,681
Dividend income	-	-	-	-	-
Interest expense	(16,643)	(25,550)	(6,034)	28,977	(19,250)
Interest income	25,625	263	3,380	(28,977)	291
Interest income (expense), net	8,982	(25,287)	(2,654)	-	(18,959)
Minority interest	-	-	-	(1,549)	(1,549)
Equity in income (loss) of subsidiaries	(6,637)	(1,664)	(2,659)	10,960	-
Income (loss) from continuing operations					
before income taxes	3,352	(7,044)	(20,455)	26,320	2,173
Income tax expense (benefit)	2,904	-	(661)	(255)	1,988
Income (loss) from continuing operations	448	(7,044)	(19,794)	26,575	185
Income from discontinued operations, net of taxes	-	-	263	-	263
Net income (loss)	\$ 448	\$ (7,044)	\$ (19,531)	\$ 26,575	\$ 448



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

**11. 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
<b>For the Six Months Ended October 24, 2004</b>					
<b><u>Statement of Income</u></b>					
Revenues:					
Casino	\$ -	\$ 467,889	\$ 87,755	\$ -	\$ 555,644
Rooms, food, beverage and other	113	91,206	31,043	(16,909)	105,453
Gross revenues	113	559,095	118,798	(16,909)	661,097
Less promotional allowances	-	94,188	20,418	-	114,606
Net revenues	113	464,907	98,380	(16,909)	546,491
Operating expenses:					
Casino	-	77,081	14,757	-	91,838
Gaming taxes	-	107,953	16,617	-	124,570
Rooms, food, beverage and other	12,649	172,173	53,782	(16,909)	221,695
Management fee expense (revenue)	(15,422)	16,147	(725)	-	-
Depreciation and amortization	738	42,786	5,722	-	49,246
Total operating expenses	(2,035)	416,140	90,153	(16,909)	487,349
Operating income	2,148	48,767	8,227	-	59,142
Interest expense	(32,114)	(50,816)	(10,557)	56,460	(37,027)
Interest income	51,206	515	5,413	(56,460)	674
Interest expense, net	19,092	(50,301)	(5,144)	-	(36,353)
Dividend income	-	-	-	-	-
Minority interest	-	-	-	(3,682)	(3,682)
Equity in income (loss) of subsidiaries	(210)	(1,797)	(5,007)	7,014	-
Income (loss) from continuing operations					
before income taxes	21,030	(3,331)	(1,924)	3,332	19,107
Income tax expense (benefit)	9,973	-	(1,298)	-	8,675
Income (loss) from continuing operations	11,057	(3,331)	(626)	3,332	10,432
Income from discontinued operations, net of taxes	-	-	625	-	625
Net income (loss)	\$ 11,057	\$ (3,331)	\$ (1)	\$ 3,332	\$ 11,057

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

**11. 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
<b>For the Six Months Ended October 24, 2004</b>					
<b>Statement of Cash Flows</b>					
Net cash provided by (used in)					
operating activities	\$ (193,984)	\$ 248,618	\$ 29,542	\$ 1,728	\$ 85,903
Net cash provided by (used in)					
investing activities	198,095	(247,303)	(24,649)	(7,565)	(81,421)
Net cash provided by (used in)					
financing activities	(6,973)	132	(6,341)	3,060	(10,122)
Effect of foreign currency exchange rates on					
cash and cash equivalents	-	37	(6)	-	31
Net increase (decrease) in cash and					
cash equivalents	(2,862)	1,484	(1,454)	(2,777)	(5,609)
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	\$ 30,461	\$ 72,400	\$ 28,889	\$ (2,777)	\$ 128,973

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
<b>As of April 24, 2005</b>					
<b>Balance Sheet</b>					
Current assets	\$ 63,560	\$ 82,644	\$ 64,871	\$ (6,627)	\$ 204,448
Intercompany receivables	896,214	(228,835)	42,463	(709,842)	-
Investments in subsidiaries	233,544	269,817	(10,027)	(493,33)	-
Property and equipment, net	4,630	774,165	248,111	-	1,026,906
Other assets	21,806	379,409	58,215	(5,896)	453,534
Total assets	\$ 1,219,754	\$ 1,277,200	\$ 403,633	\$ (1,215,699)	\$ 1,684,888
Current liabilities	\$ 22,360	\$ 99,930	\$ 67,110	\$ (9,738)	\$ 179,662
Intercompany payables	-	623,879	85,963	(709,842)	-
Long-term debt,					
less current maturities	946,875	8,080	193,662	-	1,148,617
Other accrued liabilities	(7,939)	80,454	(527)	-	71,988
Minority interest	-	-	-	23,225	23,225
Stockholders' equity	258,458	464,857	57,425	(519,344)	261,396
	\$ 1,219,754	\$ 1,277,200	\$ 403,633	\$ (1,215,699)	\$ 1,684,888

Total liabilities and  
stockholders' equity

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

**11. Consolidating Condensed Financial Information (continued)**

(a) The following subsidiaries of the Company are guarantors of the 7% Senior Subordinated Notes and the 9% Senior Subordinated Notes: 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; IOC-St. Louis County, Inc.; IOC-Black Hawk County, Inc.; IOC-PA, L.L.C.; IOC-City of St. Louis, L.L.C.; and IOC-Manufacturing, 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 and the 9% Senior Subordinated Notes: Isle of Capri Black Hawk, L.L.C.; Isle of Capri Black Hawk Capital Corp.; IC Holdings Colorado, Inc.; CCSC/Blackhawk, Inc.; IOC-Black Hawk Distribution Company, L.L.C.; Blue Chip Casinos, PLC; Isle of Capri of Jefferson County, Inc.; Casino Parking, 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, 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.; JPLA Pelican, L.L.C.; IOC-Cameron, L.L.C.; Isle of Capri Casinos Limited and Capri Insurance Corporation.

**12. Related Party**

On April 25, 2005, the Company sold the Colorado Grande-Cripple Creek for \$6.5 million with \$0.6 million payable in cash and the remaining \$5.9 million as a promissory note secured by the assets of the casino. After receiving offers from several third parties, the Company's Board of Directors agreed to sell the Colorado Grande-Cripple Creek to Nevada Gold & Casinos, Inc. Nevada Gold & Casinos, Inc. also owns 43% of the Isle-Black Hawk and the Colorado Central Station-Black Hawk.

**13. Subsequent Event**

On October 24, 2005, Isle of Capri Black Hawk, L.L.C., a joint venture company owned 57% by Isle of Capri Casinos, Inc. and 43% by a subsidiary of Nevada Gold & Casinos, Inc., entered into a \$240.0 million Second Amended and Restated Credit Agreement. The credit agreement, which amends and restates the Isle of Capri Black Hawk, L.L.C.'s existing credit agreement in its entirety, provides for a \$50.0 million revolving credit facility maturing the earlier of October 24, 2010 or such date as the term loan facility is repaid in full and a \$190.0 million term loan facility maturing on October 24, 2011. At the Isle of Capri Black Hawk, L.L.C.'s and the lead arranger's mutual discretion, Isle of Capri Black Hawk, L.L.C. may increase the size of the revolver and/or term loan facility, in an aggregate amount up to \$25.0 million subject to certain conditions. The term loans are payable in quarterly installments beginning on December 30, 2005 and ending on September 30, 2011. The revolving loans may bear interest at the Isle of Capri Black Hawk, L.L.C.'s option at (1) the higher of 0.5% in excess of the federal funds effective rate plus an applicable margin up to 1.25% or the rate that the lead arranger announces from time to time as its prime lending rate plus an applicable margin up to 1.25% or (2) a rate tied to a LIBOR rate plus an applicable margin up to 2.25%. The term loans may bear interest at the Isle of Capri Black Hawk, L.L.C.'s option at (1) the higher of 0.5% in excess of the federal funds effective rate plus an applicable margin of 1.0% or the rate that the lead arranger announces from time to time as its prime lending rate plus an applicable margin of 1.0% or (2) a rate tied to a

LIBOR rate plus an applicable margin of 2.00%. The credit agreement is secured by liens on substantially all of the Isle of Capri Black Hawk, L.L.C.'s assets. The credit agreement contains customary representations and warranties and affirmative and negative covenants and is non-recourse to the Company.

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

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 regional 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 geographic 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 a controlling interest in casino investments in Dudley, Wolverhampton and Walsall, England, each of which is operated by the minority owners.

The following table reflects our consolidated net revenues and operating income by state:

	Three months ended				Six months ended			
	October 23, 2005	October 24, 2004	Variance \$	Variance %	October 23, 2005	October 24, 2004	Variance \$	Variance %
Net revenues:								
Mississippi	\$ 54,366	\$ 60,655	\$ (6,289)	(10.4%)	\$ 121,557	\$ 123,331	\$ (1,774)	(1.4%)
Louisiana	51,994	68,734	(16,740)	(24.4%)	117,106	140,171	(23,065)	(16.5%)
Missouri	39,354	41,587	(2,233)	(5.4%)	79,713	83,501	(3,788)	(4.5%)
Iowa	51,640	54,536	(2,896)	(5.3%)	105,785	108,978	(3,193)	(2.9%)
Colorado	39,633	33,621	6,012	17.9%	78,989	68,261	10,728	15.7%
International	6,371	4,371	2,000	45.8%	15,440	12,718	2,722	21.4%
Corporate and other	4,584	4,267	317	7.4%	10,886	9,531	1,355	14.2%
Total net revenues	\$ 247,942	\$ 267,771	\$ (19,829)	(7.4%)	\$ 529,476	\$ 546,491	\$ (17,015)	(3.1%)
Operating income:								
Mississippi	\$ 5,631	\$ 3,548	\$ 2,083	58.7%	\$ 12,504	\$ 12,435	\$ 69	0.6%
Louisiana	2,247	8,950	(6,703)	(74.9%)	8,233	19,189	(10,956)	(57.1%)
Missouri	6,040	5,457	583	10.7%	12,295	11,710	585	5.0%
Iowa	9,015	11,182	(2,167)	(19.4%)	21,210	23,349	(2,139)	(9.2%)
Colorado	9,352	6,842	2,510	36.7%	18,646	15,266	3,380	22.1%
International	(1,386)	(3,024)	1,638	54.2%	(865)	(4,679)	3,814	81.5%
Corporate and other	(16,060)	(10,274)	(5,786)	(56.3%)	(28,953)	(18,128)	(10,825)	(59.7%)
Operating income	\$ 14,839	\$ 22,681	\$ (7,842)	(34.6%)	\$ 43,070	\$ 59,142	\$ (16,072)	(27.2%)

In Mississippi, our four operations accounted for 21.9% of its net revenues. Isle-Biloxi's net revenues and operating income for the second quarter fiscal 2006, decreased primarily due to the closure of the property from extensive Hurricane Katrina damage. The Isle-Biloxi recorded an insurance receivable in the second quarter up to the amount of operating and incremental expenses incurred since the storm. Isle-Biloxi will record any related income from business interruption proceeds when the insurance carriers agree to the amount. We have also recorded an impairment charge for the estimated amount of the property damage and an offsetting insurance receivable. Accordingly these expenses

do not impact our operating results. When the insurance carriers agree to the amounts of property damage payments, we will record any related gains. Isle-Natchez experienced increases in both net revenues and operating income resulting from significant population shifts into its market area. Isle-Vicksburg showed an increase in operating income over prior year on flat net revenues driven primarily by improved efficiencies in marketing spend and overall cost controls. Isle-Lula's net revenues and operating income both saw a decline due to a very competitive market.

In Louisiana, our two properties contributed 21.0% of its net revenues. Isle-Lake Charles experienced a decrease in net revenues and operating income due to the entry into the market of a new competitor and from the closure of the casino from the effects of Hurricane Rita. Isle-Lake Charles recorded insurance receivable for operating and incremental expenses related to the 16-day closure caused by Hurricane Rita. The net effect of this is that Isle-Lake Charles reflected no operating income contribution for the 16-day period. Isle-Lake Charles will record any related income from expected business interruption proceeds when the insurance carrier has agreed to the amount. The Isle-Lake Charles has recorded a \$1.2 million expense for estimated property damage, which is included in the line item Hurricane related charges, net on the income statement, because we do not expect the property damage insurance proceeds to exceed the cost. Isle-Bossier City showed a decrease in net revenues and operating income due to increased competition from, and expansion of, Native American gaming in Oklahoma.

In Missouri, our two properties contributed 15.9% of its net revenues. Isle-Kansas City's net revenues and operating income were down due primarily to the closure of the I-35 Paseo Bridge immediately adjacent to the Isle property. The I-35 Paseo Bridge was closed for 68 days during the second fiscal quarter and 106 days during the six months ended October 23, 2005. The bridge re-opened on September 1, 2005. Isle-Boonville's net revenues and operating income remained constant despite construction disruption from the property's new hotel. Construction of the 140-room hotel continues on schedule and is expected to open in the spring of 2006.

In Iowa, our three casinos contributed 20.8% of its net revenues. Both Isle-Bettendorf and Rhythm City-Davenport showed a decline in both net revenues and operating income due to increased competition. Isle-Marquette remained constant in both net revenues and operating income.

In Colorado, our two Black Hawk casino operations contributed 16.0% of its net revenues. The properties saw an increase in net revenues and operating income due to substantial completion of our expansion projects and the reduction of construction disruption compared to the prior year period.

Our international operations account for approximately 2.6% of our overall revenues. Isle-Our Lucaya experienced an increase in net revenues and a decrease in the negative operating income compared to the prior year, primarily due to being closed in the prior year related to Hurricane Frances and Hurricane Jeanne.

We remain committed to our development project in the UK to build a casino in Coventry; however, legislation enacted in April 2005 limits the number of regional casinos to one. The number may be increased only through additional legislation. We have obtained all necessary gaming licenses to open a casino at the RICOH<sup>TM</sup>Arena Coventry in the latter part of calendar 2006 under the Gaming Act of 1968. We believe we are well positioned to develop a regional casino in Coventry should we be awarded a regional casino license.

### **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, if they were to change from period to period, likely would result 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 October 23, 2005, we had goodwill and other intangible assets with indefinite useful lives of \$433.1 million, representing 24.4% of total assets. Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), requires that goodwill and intangible assets with indefinite useful lives be tested for impairment annually or more frequently if an event occurs or circumstances change that may reduce the fair value of the company's goodwill and intangible assets below its carrying value. We completed our annual impairment test as required under SFAS 142 in the fourth quarter of fiscal year 2005 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 implied fair value of each property to carrying value. The implied 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 October 23, 2005, we had property and equipment of \$1.03 billion, representing 58.1% 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 the Company's "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 an 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 health care 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 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 health care costs, in our opinion, recorded reserves are adequate to cover payment of future claims.

### ***Insurance Accounting***

During the quarter ended October 23, 2005, hurricane related charges were recognized related to impairment charges of \$60.1 million for assets damaged or destroyed by the hurricanes and \$11.3 million for incremental costs incurred related to the hurricanes and the property operating costs related to the periods affected by the hurricanes. These amounts are included in the hurricane related charges, net in the accompanying statements of income. We have insurance coverage related to property damage, incremental costs and property operating expenses we incur due to damage caused by the hurricanes. The hurricane related charges, net account also includes the anticipated recoveries

expected from our insurance carriers of \$70.2 million related to the impairments recognized related to the damaged property, the incremental costs and property operating expenses that management believes are probable of collection. When our insurance carriers and we agree on the final amount of the insurance proceeds we are entitled to, we will also record any related gain in this account. Our insurance policies also provide coverage for the loss of profits caused by the storms. Any lost profit recoveries will be recognized when agreed to with the insurance carrier and will be reflected in the related properties' revenues.

### ***Income Tax Assets and Liabilities***

We account for income taxes in accordance with Statement of Financial Accounting Standards 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 bases 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 a quarterly 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***

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.

We routinely face 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. We record tax accruals for probable exposures associated with the various filing positions in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

### ***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 value of the outstanding 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**

Our results of operations for the three and six months ended October 23, 2005, 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 Isle-Our Lucaya, the Blue Chip-Dudley, the Blue Chip-Wolverhampton, the Blue Chip-Walsall and Pompano Park. For the three and six months ended October 24, 2004, results have been reclassified to reflect the Colorado Grande-Cripple Creek as discontinued operations.

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

operating results are materially affected by declines in the economy and adverse weather.

***Three Fiscal Months Ended October 23, 2005 Compared to Three Fiscal Months Ended October 24, 2004***

Gross revenues for the fiscal quarter ended October 23, 2005 were \$301.6 million, which included \$252.6 million of casino revenue, \$12.9 million of room revenue, \$3.8 million of pari-mutuel commissions, and \$32.3 million of food, beverage and other revenue. This compares to gross revenues for the fiscal quarter ended October 24, 2004 of \$325.5 million, which included \$273.6 million of casino revenue, \$12.3 million of room revenue, \$3.4 million of pari-mutuel commissions and \$36.2 million of food, beverage and other revenue.

Casino revenue decreased compared to fiscal quarter ended October 24, 2004. We saw a large decrease in casino revenues at our Isle-Biloxi property due primarily to Hurricane Katrina in late August. Isle-Lake Charles also showed a sharp decline in revenues as a result of the 16-day closure following Hurricane Rita and the entry of a new competitor into the market. Isle-Bossier City also saw decreased casino revenues as competition continues to increase due to Native American gaming in Oklahoma. In Colorado, casino revenues increased as our construction has been completed and disruption has ceased.

Room revenue increased \$0.6 million, or 4.8%, compared to fiscal quarter ended October 24, 2005, primarily resulting from the additional capacity at the Isle-Biloxi. Isle-Lake Charles, Isle-Bossier City, Isle Natchez and Isle Vicksburg experienced increased cash revenue room sales from evacuees and relief workers. Pari-mutuel commissions earned at Pompano Park in Florida for the fiscal quarter end were up a total of \$0.4 million, or 12.4%, due to an increase in racing days in fiscal 2006 vs. fiscal 2005. Food and beverage revenues decreased by \$3.9 million, or 12.1%, stemming from the Isle-Biloxi and Isle Lake Charles closures following the hurricanes.

Promotional allowances, which are made up of complimentary revenues, cash points and coupons, are rewards that we give our loyal customers to encourage them to continue to patronize our properties. These allowances decreased by 7.6% in fiscal quarter ended October 23, 2005, as direct mail efforts were halted in our hurricane stricken markets.

Casino operating expenses decreased 14.9% compared to fiscal quarter ended October 24, 2004. These expenses are primarily comprised of salaries, wages and benefits and other operating expenses of the casinos. These costs were down due to the closure of Isle-Biloxi and Isle-Lake Charles following the hurricanes.

State and local gaming taxes also decreased compared to fiscal quarter ended October 24, 2004. The rate for taxes as a percentage of gaming revenue increased from 22.0% to 22.3%.

Room expenses increased \$0.3 million, or 13.0%, compared to fiscal quarter ended October 24, 2004. 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.

Pari-mutuel operating costs of Pompano Park in Florida increased 16.4% compared to fiscal quarter ended October 24, 2004. This is related to an increase in racing days in fiscal 2006 vs. 2005. Such costs consist primarily of compensation, benefits, purses, simulcast fees and other direct costs of track operations.

Food and beverage expenses decreased 8.5% over fiscal quarter ended October 24, 2004. 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 23.9% for the fiscal quarter ended October 24, 2004, to 24.5% for the fiscal quarter ended October 23, 2005. These expenses decreased partly as a result our hurricane stricken markets.

Marine and facilities expenses increased \$1.1 million, or 6.6%, compared to fiscal quarter ended October 24, 2004. These expenses include salaries, wages and benefits of the marine and facilities departments, operating expenses of the marine crews, insurance, maintenance of public areas, housekeeping and general maintenance of the riverboats and pavilions.

This increased maintenance was due primarily to preparations at Isle-Biloxi for Hurricane Katrina and at Isle-Lake Charles for Hurricane Rita.

Marketing and Administrative expenses decreased \$2.4 million, or 3.0%, compared to fiscal quarter ended October 24, 2004 primarily due to lower new development costs versus prior year. 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 include administration and human resource department expenses, rent, new development activities, professional fees and property taxes.

Depreciation expense has remained flat over fiscal quarter ended October 24, 2004.

Net interest expense increased 7.1% compared with fiscal quarter ended July 25, 2004. This is attributable to the higher interest rates and higher debt balances on the Company's senior secured credit facility partially offset by higher interest income.

We expense all developmental costs until we determine that ultimate licensure and operation is deemed probable. At that time, we evaluate the applicable costs and capitalize if appropriate.

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.

***Six Fiscal Months Ended October 23, 2005 Compared to Six Fiscal Months Ended October 24, 2004***

Gross revenues for the six months ended October 23, 2005, were \$643.5 million, which included \$536.4 million of casino revenues, \$27.2 million of room revenues, \$9.0 million of pari-mutuel commissions and \$70.9 million of food, beverage and other revenues. This compares to gross revenues for the six months ended October 24, 2004, of \$661.1 million, which included \$555.6 million of casino revenues, \$25.2 million of room revenues, \$7.8 million of pari-mutuel commissions and \$72.4 million of food, beverage and other revenues.

Casino revenues declined at those properties that were affected by hurricane disruptions, particularly the Isle-Biloxi and the Isle-Lake Charles. We saw a decrease in casino revenues at our Missouri properties due primarily the I-35 Paseo bridge closure for 106 days during the six months ended October 23, 2005. We also faced decreases in casino revenues at the Isle-Bossier City because of increased competition from Native American gaming in Oklahoma.

Room revenues increased 7.9% primarily resulting from the additional capacity at the Isle-Biloxi following Hurricane Katrina. Isle-Lake Charles, Isle-Bossier City, Isle-Natchez and Isle-Vicksburg experienced increased cash revenue room sales from evacuees and relief workers. Pari-mutuel commissions earned at Pompano Park in Florida increased slightly, as the increase in number of live race days helped to offset the general decline in onsite wagering on horse races. Food and beverage revenues decreased by 2.1% because of the closures of Isle-Biloxi and Isle-Lake Charles following Hurricane Katrina and Hurricane Rita, respectively.

Promotional allowances, which are made up of complimentary revenues, cash points and coupons, are rewards that we give our loyal customers to encourage them to continue to patronize our properties. These allowances remained flat over the same fiscal period a year ago.

Casino operating expenses for the first six months of fiscal 2006 decreased 4.6% when compared to the first six months of fiscal 2005. 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 hurricanes in our Isle-Biloxi and Isle-Lake Charles markets.

Gaming taxes decreased 4.4% in the six months ended October 23, 2005, and gaming taxes as a percentage of casino revenues decreased from 22.1% for the six months ended October 24, 2004 to 21.8% of casino revenues for the six months ended October 23, 2005. Effective July 1, 2004, we were subject to an additional assessment of 2.0% of gross gaming revenues in Iowa due to a tax increase enacted in that state. This increase was offset by decreased gaming taxes for Isle-Biloxi.

Room expenses for the six months ended October 23, 2005 increased 9.7% when compared to the six months ended October 24, 2004. 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 and Isle-Biloxi.



Pari-mutuel expenses increased 14.4% in the six months ended October 23, 2005 as pari-mutuel commissions increased due to more racing days in fiscal 2006 than in fiscal 2005.

Food, beverage and other expenses decreased 3.9% during the six months ended October 23, 2005. 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 decreased from 24.6% for the six months ended October 24, 2004 to 24.1% for the six months ended October 23, 2005. These expenses decreased partly as a result of our hurricane stricken markets.

Marine and facilities expenses increased 2.5% for the six months ended October 23, 2005. 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 Isle-Biloxi preparing for Hurricanes Cindy, Dennis and Katrina and Isle-Lake Charles preparing for Hurricane Rita.

Marketing expenses increased 2.9% for the six months ended October 23, 2005. The increase in expenses is primarily due to \$8.3 million in new development and increased marketing efforts in select markets. 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 include administration and human resource department expenses, rent, new development activities, professional fees and property taxes.

Depreciation and amortization expense increased 2.9% for the six months ended October 23, 2005. Depreciation has increased as a result of the company's capital expansion programs. The increase was primarily due to the capital additions at the Isle-Biloxi, Isle-Bossier City, the Isle-Lake Charles and the Isle-Kansas City.

Our effective tax rate from continuing operations for the six months ended October 23, 2005 was 60.0% compared to 44.1% for the six months ended October 24, 2004, which, in each case, excludes an unrelated party's portion of the Colorado Central Station-Black Hawk's income taxes. This increase in effective rate over the comparable prior fiscal period is attributable to the effect of permanent items on lower forecasted earnings for the entire fiscal year.

### **Liquidity and Capital Resources**

At October 23, 2005, we had cash and cash equivalents and marketable securities of \$144.5 million compared to \$162.7 million at April 24, 2005, the end of our last fiscal year. Of this \$18.2 million decrease, \$21.2 million is a decrease in cash and cash equivalents and is the net result of \$54.8 million net cash provided by operating activities, \$124.6 million net cash used in investing activities, \$49.2 million net cash provided by financing activities and \$0.6 million decrease in cash from the effect of foreign currency exchange rates. The offsetting increase of \$3.0 million is marketable securities held by Capri Insurance Corporation, of which we have the ability to draw up to 50% of the balance of these securities. In addition, as of October 23, 2005, we had \$390.1 million of capacity under lines of credit and available term debt which consisted of \$382.1 million in unused credit capacity under the revolving loan commitment on our senior secured credit facility, \$4.0 million of unused credit capacity under the Isle-Black Hawk's senior secured credit facility (limited to use by the Isle-Black Hawk), and \$4.0 million under other lines of credit and available term debt. During the six months ended October 23, 2005, the Isle-Black Hawk drew down \$10.0 million on its revolving loan under the Isle-Black Hawk's senior secured credit facility. 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.

### ***Investing Activities***

We invested \$91.6 million in property and equipment during the six fiscal months ended October 23, 2005, excluding the construction for the Isle-Biloxi new casino barge. The following table reflects expenditures and accruals for property and equipment on major projects for which we are committed to in the six fiscal months ended October 23, 2005 and projected expenditures for these projects. The amounts in the table do not include any expenditures and accruals prior to the beginning of fiscal 2005.



<b>Property</b>	<b>Project</b>	<b>Actual</b>		<b>Remaining</b>	
		<b>Fiscal Year Ended 4/24/05 (1)</b>	<b>Six Months Ended 10/23/05 (1) (dollars in millions)</b>	<b>Fiscal Year Ending 4/30/06 (1)</b>	<b>Thereafter</b>
Isle-Biloxi	Construct hotel & parking facility	\$ 43.5	\$ 11.2	\$ 1.7	\$ -
Isle-Bossier City	Construct hotel & entertainment center	5.8	-	-	-
Isle-Bossier City	Renovate casino	2.4	2.0	0.2	-
Isle-Bettendorf	Construct hotel	-	0.4	3.9	40.7
Isle-Lake Charles	Renovate & expand casinos	11.6	4.4	2.0	-
Isle-Pompano	Construct casino	-	6.1	4.3	-
Isle-Boonville	Construct hotel	2.0	6.1	9.4	-
Isle-Black Hawk (57% owned)	Expansion & public improvements	62.5	16.6	9.9	-
Isle-Waterloo	Construct casino & hotel	-	0.7	13.3	120.5
Coventry	Construct leasehold improvements	8.4	8.3	18.1	24.2
Blue Chip	Construct leasehold improvements	2.2	-	-	&#160