

ISLE OF CAPRI CASINOS INC
Form 10-Q
December 01, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 24, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

Delaware

41-1659606

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification Number)

1641 Popps Ferry Road, Biloxi,
Mississippi

39532

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(228) 396-7000

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

Yes No

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

As of November 30, 2004 the Company had a total of 29,667,732 shares of Common Stock outstanding (which excludes 3,614,700 shares held by us in treasury).

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

<u>ASSETS</u>	October 24, 2004 (Unaudited)	April 25, 2004
Current assets:		
Cash and cash equivalents	\$ 128,973	\$ 134,582
Accounts receivable, net	9,891	10,427
Income tax receivable	-	2,860
Deferred income taxes	11,147	11,283
Prepaid expenses and other assets	23,128	16,169
Total current assets	173,139	175,321
Property and equipment, net	945,337	907,460
Other assets:		
Goodwill	336,019	333,780
Other intangible assets	72,358	72,349
Deferred financing costs, net	21,595	23,340
Restricted cash	2,193	2,482
Prepaid deposits and other	8,087	9,303
Total assets	\$ 1,558,728	\$ 1,524,035

<u>LIABILITIES AND STOCKHOLDERS'</u>			
<u>EQUITY</u>			
Current liabilities:			
Current maturities of long-term debt	\$	7,852	\$ 8,040
Accounts payable trade		29,120	21,725
Accrued liabilities:			
Interest		9,853	10,311
Payroll and related		44,917	45,588
Property and other taxes		23,892	17,167
Income taxes		6,463	-
Progressive jackpots and slot club awards		16,890	14,828
Other		26,647	21,856
Total current liabilities		165,634	139,515
Long-term debt, less current maturities		1,079,060	1,080,824
Deferred income taxes		21,787	21,825
Deferred state income taxes		8,191	8,191
Other accrued liabilities		12,738	12,091
Minority interest		23,217	20,183
Stockholders' equity:			
Preferred stock, \$.01 par value; 2,000 shares authorized; none issued		-	-
Common stock, \$.01 par value; 45,000 shares authorized; shares issued and outstanding: 33,189 at October 24, 2004 and 33,055 at April 25, 2004		332	330
Class B common stock, \$.01 par value; 3,000 shares authorized; none issued		-	-
Additional paid-in capital		143,945	143,385
Unearned compensation		(1,984)	(1,413)
Retained earnings		139,152	128,095
Accumulated other comprehensive income		1,089	521
		282,534	270,918
Treasury stock, 3,615 shares at October 24, 2004 and 3,338 shares at April 25, 2004		(34,433)	(29,512)
Total stockholders' equity		248,101	241,406
Total liabilities and stockholders' equity	\$	1,558,728	\$ 1,524,035

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 24,	October 26,	October 24,	October 26,

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	2004	2003	2004	2003
Revenues:				
Casino	\$ 275,492	\$ 275,527	\$ 559,687	\$ 564,310
Rooms	12,334	11,209	25,259	23,069
Pari-mutuel commissions and fees	3,362	3,032	7,801	7,750
Food, beverage and other	36,755	35,011	73,436	72,668
Gross revenues	327,943	324,779	666,183	667,797
Less promotional allowances	58,221	55,113	115,589	112,380
Net revenues	269,722	269,666	550,594	555,417
Operating expenses:				
Casino	47,138	44,625	92,800	91,000
Gaming taxes	61,976	60,337	124,920	122,556
Rooms	2,598	2,523	5,436	5,095
Pari-mutuel	2,749	2,361	6,219	5,842
Food, beverage and other	8,932	7,461	18,278	16,032
Marine and facilities	16,256	16,953	33,387	33,033
Marketing and administrative	81,111	77,519	160,040	156,280
Preopening	192	307	247	598
Depreciation and amortization	25,834	21,437	49,457	43,054
Total operating expenses	246,786	233,523	490,784	473,490
Operating income	22,936	36,143	59,810	81,927
Interest expense, net	(18,951)	(20,642)	(36,351)	(41,740)
Minority interest	(1,549)	(2,657)	(3,682)	(5,490)
Income before income taxes	2,436	12,844	19,777	34,697
Income taxes	1,988	2,134	8,720	10,435
Net income	\$ 448	\$ 10,710	\$ 11,057	\$ 24,262
Net income per common share-basic	\$ 0.02	\$ 0.37	\$ 0.37	\$ 0.83
Net income per common share-diluted	\$ 0.01	\$ 0.35	\$ 0.36	\$ 0.79
Weighted average basic shares	29,532	29,336	29,610	29,241
Weighted average diluted shares	30,542	30,827	30,646	30,591

See notes to the unaudited consolidated financial statements.

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

**Accumulated
Other**

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compen- sation	Retained Earnings	Compre- hensive Income	Treasury Stock	Total Stockholders' Equity
Balance, April 25, 2004	33,055	\$ 330	\$ 143,385	\$ (1,413)	\$ 128,095	\$ 521	\$ (29,512)	\$ 241,406
Net income	-	-	-	-	11,057	-	-	11,057
Unrealized gain on interest rate swap contracts	-	-	-	-	-	160	-	160
Foreign currency translation adjustments	-	-	-	-	-	408	-	408
Comprehensive income, net of income taxes	-	-	-	-	-	-	-	11,625
Exercise of stock options, including tax benefit of \$211	134	2	(339)	-	-	-	1439	1102
Purchase of treasury stock	-	-	-	-	-	-	(6,360)	(6,360)
Grant of nonvested stock	-	-	899	(899)	-	-	-	-
Amortization of unearned compensation	-	-	-	328	-	-	-	328
Balance, October 24, 2004	33,189	\$ 332	\$ 143,945	\$ (1,984)	\$ 139,152	\$ 1,089	\$ (34,433)	\$ 248,101

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 24, **October 26,**
2004 **2003**

Operating activities:

Net income	\$	11,057	\$	24,262
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		49,457		43,054
Amortization of deferred financing costs		2,028		2,151
Amortization of unearned compensation		328		373
Minority interest		3,682		5,490
Changes in operating assets and liabilities:				
Accounts receivable		519		(1,086)
Income tax payable		9,535		-
Prepaid expenses and other assets		(5,763)		(5,634)
Accounts payable and accrued liabilities		15,060		21,273
Net cash provided by operating activities		85,903		89,883

Investing activities:

Purchases of property and equipment, net		(80,156)		(68,646)
Notes receivable		(1,023)		-
Net cash paid for acquisitions		-		(948)
Proceeds from sales of assets		-		250
Restricted cash		(70)		(45)
Other		(172)		2,964
Net cash used in investing activities		(81,421)		(66,425)

Financing activities:

Proceeds from debt		1,153		-
Net increase (reduction) in line of credit		1,634		(5,916)
Principal payments on debt		(4,851)		(8,342)
Deferred financing costs		(280)		(366)
Purchase of treasury stock		(6,360)		-
Proceeds from exercise of stock options		891		3,276
Cash distributions to minority partner		(2,309)		(1,146)
Net cash used in financing activities		(10,122)		(12,494)

Effect of foreign currency exchange rates on cash

		31		-
Net increase in cash and cash equivalents		(5,609)		10,964
Cash and cash equivalents at beginning of period		134,582		94,626
Cash and cash equivalents at end of period	\$	128,973	\$	105,590

See notes to the unaudited consolidated financial statements.

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

Six Months Ended
October 24, October 26,
2004 2003

Supplemental disclosure of cash flow information:

Net cash (receipts) payments for:

Interest	\$	36,323	\$	40,769
Income taxes		(814)		2,394

Supplemental schedule of noncash investing and financing activities:

Other:

Construction costs funded through accounts payable and accrued liabilities		6,115		2,682
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See notes to the unaudited consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

Fiscal Year-End

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

Interim Financial Information

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. During the current quarter, these adjustments include additional depreciation expense of \$2.9 million related to the reclassification of certain land improvements that were improperly classified as land at the time of the conversion of the Company's manual system to a computerized asset tracking system in fiscal 2002. This adjustment is not material to previous fiscal years, nor is it expected to be material to anticipated results or to the trend of earnings for the full fiscal year and accordingly, the Company has included the correction in the period identified. Operating results for the three and six months ended October 24, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending April 24, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended April 25, 2004.

Reclassification

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

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

2. Stock-Based Compensation

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

Three Months Ended		Six Months Ended	
October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003

(In thousands, except per share data)

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Net income, as reported	\$	448	\$	10,710	\$	11,057	\$	24,262
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(516)		(1,163)		(1,780)		(1,877)
Pro forma net income	\$	(68)	\$	9,547	\$	9,277	\$	22,385
Earnings per common share:								
Basic - as reported	\$	0.02	\$	0.37	\$	0.37	\$	0.83
Basic - pro forma	\$	-	\$	0.33	\$	0.31	\$	0.77
Diluted - as reported	\$	0.01	\$	0.35	\$	0.36	\$	0.79
Diluted - pro forma	\$	-	\$	0.31	\$	0.30	\$	0.73

The stock-based compensation included in the table above represents the after-tax amount of pro forma compensation related to stock option plans. Reported net income includes amortization of restricted stock compensation of \$62,000 and \$117,000, net of income taxes, for the three months ended October 24, 2004, and October 26, 2003, respectively, and \$188,000 and \$234,000, net of income taxes, for the six months ended October 24, 2004, and October 26, 2003, respectively.

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

Fiscal Quarter	Risk-Free Interest Rate	Original	Expected	Expected
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