

ISLE OF CAPRI CASINOS INC
Form 10-K
July 14, 2006

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

FORM 10-K

(Mark One)

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

For the fiscal year ended April 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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

1641 Popps Ferry Road, Biloxi,
Mississippi
(Address of principal executive offices)

39532
(Zip Code)

Registrant's telephone number, including area code: (228) 396-7000
Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, \$.01 Par Value Per Share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The aggregate market value of the voting and non-voting stock held by non-affiliates¹ of the Company is \$305,584,206, based on the last reported sale price of \$20.79 per share on October 21, 2005 on the NASDAQ Stock Market; multiplied by 14,698,615 shares of Common Stock outstanding and held by non-affiliates of the Company on such date.

As of July 3, 2006, the Company had a total of 30,392,940 shares of Common Stock outstanding (which excludes 3,902,423 shares held by us in treasury).

⁽¹⁾Affiliates for the purpose of this item refer to the directors, named executive officers and/or persons owning 10% or more of the Company's common stock, both of record and beneficially; however, this determination does not constitute an admission of affiliate status for any of the individual stockholders.

Document Incorporated by Reference:

<u>Document</u>	<u>Part of Form 10-K into which Incorporated</u>
Isle of Capri Casinos, Inc.'s Definitive Proxy Statement for its Annual Meeting of Stockholders to be held October 26, 2006.	Part III

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FORM 10-K
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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical or current facts included in this annual report on form 10-K 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 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 (“cautionary statements”), are disclosed under “Risk Factors” and elsewhere in this annual report on Form 10-K, including, without limitation, in conjunction with the forward-looking statements included in this Annual Report on Form 10-K.

We urge you to review carefully the section “Risk Factors” beginning on page 36 in this annual report on Form 10-K for a more complete discussion of the risks of investing our common stock. 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.

PART I

ITEM 1. BUSINESS.

Overview

We were incorporated in Delaware in February 1990. We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States and internationally. We wholly own and operate eleven gaming facilities in the U.S. 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. We also own a 57% interest in, and receive management fees for operating, two gaming facilities in Black Hawk, Colorado. One of these facilities in Black Hawk, Colorado operates under the name "Isle of Capri" and features our distinctive tropical island theme. Our international gaming interests include a wholly owned casino in Freeport, Grand Bahama, and a two-thirds ownership interest in casinos in Dudley, Wolverhampton, and Walsall, England. We also wholly own and operate a pari-mutuel harness racing facility in Pompano Beach, Florida.

On May 11, 2005, we announced that the Iowa Racing and Gaming Commission awarded us a gaming license in Waterloo, Iowa. Construction is underway on a 35,000 square foot single level casino with 1,300 gaming positions, three restaurants, a 200-room hotel and 1,000 parking spaces. We expect to open in late spring of 2007 at a total cost of approximately \$135 million.

On January 4, 2006, a Florida statute became effective allowing Pompano Park and three other pari-mutuel facilities in Broward County to offer slot machine gaming to patrons at these facilities. Although there are pari-mutuel facilities in numerous other counties in the State of Florida, slot machine gaming is only authorized in Broward County where Pompano Park is located. We are constructing a gaming facility including 1,500 slot machines, four restaurants and a feature bar at Pompano Park adjacent to the existing grandstand at a cost approximately \$140 million with slot machine gaming anticipated to commence in early calendar year 2007. We do not plan to open a temporary gaming facility. The statute authorizes us to operate up to 1,500 slot machines at Pompano Park 365 days per year, 16 hours per day and requires Pompano Park to pay an annual license fee of \$3.0 million and gaming taxes equal to 50% of Pompano Park's net slot machine revenue plus combined county and city taxes of approximately an additional 3.5% on the first \$250 million of net slot machine revenue and 5% on net slot machine revenue over \$250 million. The Florida Department of Business and Professional Regulation is administering the law and is now implementing rules and regulations for the operation of the slot machines.

On February 14, 2006, we announced the execution of an agreement to sell our properties in Bossier City, Louisiana and Vicksburg, Mississippi to Legends Gaming, LLC for \$240 million. We expect to use proceeds from the sale to fund existing development projects and/or pay down debt. The agreement is subject to regulatory approvals and other customary closing conditions. This transaction is expected to close in the second quarter of fiscal 2007. These properties have been reported as discontinued operations throughout this document.

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

On June 15, 2006, we announced that we received site and development approval from the Mississippi Gaming Commission in connection with our previously announced casino resort in west Harrison County, Mississippi, which is approximately 20 miles from the Mississippi/Louisiana state border near Interstate 10. Preliminary plans call for the estimated \$250-\$300 million project to include a single level gaming facility with over 2,000 gaming positions, a 500-room hotel, five restaurants and a complement of additional resort amenities. The project remains in the preliminary planning stages, and is subject to certain significant conditions, including but not limited to the receipt of all necessary licenses, approvals and permits.

For the fiscal year ended April 30, 2006, we had net revenues from continuing operations of approximately \$988.0 million.

Competitive Strengths

Strong Brand Identity. Most of our casino properties operate under the “Isle of Capri” name designed to incorporate our distinctive tropical island theme. Most of our domestic gaming facilities contain similar amenities, including hotels, one or more of our trademark restaurants (Farradays’ fine dining restaurant, Calypso’s buffet and Tradewinds Marketplace), a Banana Cabana gift shop and an entertainment center for performances and meetings. Each of our facilities also offers all customers membership in our rewards program, which rewards loyal customers with points and complimentary that can be redeemed at any of our properties by using a player’s club card. These programs are the IsleOne Players Club, the Fan Club, and the Fast Track Club at the Isle of Capri properties, the Rhythm City-Davenport and the Colorado Central Station-Black Hawk, respectively. We believe our brand names convey excitement, entertainment, consistent high-quality service and value to our customers.

Standardized Quality and Services. We have developed and implemented standardized procedures for operating our casinos, hotels, restaurants and other non-gaming amenities, which has allowed us to fully and effectively integrate the domestic properties we have developed or acquired during the past fourteen years. We utilize management development and employee training programs to implement these procedures throughout our facilities, which we believe help us efficiently operate our facilities. This standardization encourages high-quality service and provides our customers with a consistent experience.

Geographically Diverse Markets. We own or operate our gaming facilities in eleven distinct geographic markets located in 6 states, the Bahamas and the United Kingdom, allowing us to maintain diverse sources of revenue and cash flow.

Most of our gaming facilities are conveniently located near major highways. We have located our facilities so that, in most cases, they are either the first casino reached by customers arriving from major nearby cities or are within a cluster of facilities, allowing us to generate significant customer traffic.

Substantial Capital Investment in Our Properties. We are continuing to expand and upgrade the facilities at several of our domestic properties and believe the continued investment has improved their competitive position.

Effective Utilization of Proprietary Database. We have developed an extensive proprietary database of primarily slot-oriented customers that allows us to create and deploy effective targeted marketing and promotional programs, merchandise giveaways, game tournaments and other special events. These promotional programs are designed to reward customer loyalty and maintain high recognition of our “Isle of Capri” brand. As of April 30, 2006, our database contained approximately 6.9 million members, of whom approximately 1.6 million receive regular communications from us. We believe we have effectively used our database to encourage repeat visits, increase customers’ length of stay and improve our operating results.

Experienced, Stable Management Team. We are an experienced gaming operator and opened our first gaming facility approximately fourteen years ago. Each member of our senior management team has extensive gaming or related industry experience and most have been with us for a number of years, providing consistency in our operations.

Casino Properties

The following is an overview of our existing casino properties as of April 30, 2006:

<u>Property*</u>	<u>Date Opened or Acquired</u>	<u>Slot Machines</u>	<u>Table Games</u>	<u>Hotel Rooms</u>	<u>Parking Spaces</u>
<i>Louisiana</i>					
Isle-Lake Charles	July 1995	1,968	83	493	2,200
<i>Mississippi</i>					
Isle-Lula	March 2000	1,506	24	486	1,500
Isle-Biloxi	August 1992	927	36	728	900
Isle-Natchez	March 2000	648	19	143	908
<i>Missouri</i>					
Isle-Kansas City	June 2000	1,533	33	-	1,947
Isle-Boonville	December 2001	902	34	-	1,079
<i>Iowa</i>					
Isle-Bettendorf	March 2000	1,122	28	256	1,539
Rhythm City-Davenport	October 2000	1,024	17	121	984
Isle-Marquette	March 2000	708	15	25	490
<i>Colorado</i>					
Isle-Black Hawk (57% owned)	December 1998	1,378	18	238	1,100
Colorado Central Station - Black Hawk (57% owned)	April 2003	778	15	162	1,200
<i>International Properties</i>					
Isle-Our Lucaya	December 2003	351	33	-	-
Blue Chip-Dudley (66 2/3% owned)	November 2003	10	29	-	63
Blue Chip-Wolverhampton (66 2/3% owned)	April 2004	10	48	-	20
Blue Chip-Walsall (66 2/3% owned)	October 2004	10	51	-	-

* Excludes Isle-Vicksburg and Isle-Bossier City which have been classified as discontinued operations due to an agreement

to sell both properties. The Company expects the transaction to close in the second quarter of fiscal 2007.

Louisiana

The Isle-Lake Charles

The Isle-Lake Charles, which commenced operations in July 1995, is located on a 19-acre site along Interstate 10, the main thoroughfare connecting Houston, Texas to Lake Charles, Louisiana. The property consists of two dockside casinos offering 1,968 slot machines and 83 table games, a 252-room deluxe hotel, a separate 241-room hotel, a 105,000 square foot land-based pavilion and entertainment center, and 2,200 parking spaces, including approximately 1,400 spaces in an attached parking garage. The pavilion and entertainment center offer customers a wide variety of non-gaming amenities, including a 97-seat Farradays' restaurant, a 360-seat Calypso's buffet, a 165-seat Tradewinds Marketplace, a 140-seat Kitt's Kitchen restaurant, a 64-seat Lucky Wins oriental restaurant and Caribbean Cove, which features free live entertainment and can accommodate 180 customers. The pavilion also has a 14,750 square foot entertainment center comprised of an 1,100-seat special events center designed for concerts, live boxing, televised pay-per-view events, banquets and other events, meeting facilities and administrative offices.

The Lake Charles market currently consists of two dockside gaming facilities (which include the Isle-Lake Charles and Pinnacle Entertainment's one-level barge facility), a Native American casino and a pari-mutuel facility/racino (operated by Boyd Gaming). Due to Hurricane Rita, Harrah's has not operated in the market since its closure in September 2005. Pinnacle Entertainment has entered into an agreement to acquire the Harrah's Lake Charles assets, including its two gaming licenses. Pinnacle has announced that it intends to move one of these licenses out of the Lake Charles market and use the other license to develop a new casino in Lake Charles. The current number of slot machines in the market exceeds 8,200 machines and table games exceed 200 tables. In calendar year 2005, the three gaming facilities (Isle, Pinnacle, Harrah's) and one racino (Boyd), in the aggregate, generated gaming revenues of approximately \$550 million. Revenues for the Native American property are not published and are not available. Lake Charles is the closest gaming market to the Houston metropolitan area, which has a population of approximately 4.7 million and is located approximately 140 miles west of Lake Charles. We believe that the Isle-Lake Charles attracts customers primarily from southeast Texas, including Houston, Beaumont, Galveston, Orange and Port Arthur and from local area residents. Approximately 490,000 and 1.6 million people reside within 50 and 100 miles, respectively, of the Isle-Lake Charles.

Mississippi

The Isle-Lula

The Isle-Lula, which was acquired in March 2000, is strategically located off of Highway 49, the only road crossing the Mississippi River between Mississippi and Arkansas for more than 50 miles in either direction. The property consists of two dockside casinos containing 1,506 slot machines and 24 table games, two on-site hotels with a total of 486 rooms, a land-based pavilion and entertainment center, and 1,500 parking spaces. The pavilion and entertainment center offer a wide variety of non-gaming amenities, including a 144-seat Farradays' restaurant, a 260-seat Calypso's buffet and a 50-seat Tradewinds Marketplace.

The Isle-Lula is the only gaming facility in the Coahoma County, Mississippi market and generated gaming revenues of approximately \$90.2 million in calendar year 2005. The Isle-Lula is the closest gaming facility to the Little Rock, Arkansas metropolitan area, which has a population of approximately 629,000 and is located approximately 120 miles west of the property. Coahoma County is also located approximately 60 miles southwest of Memphis, Tennessee, which is primarily served by 9 casinos in Tunica, Mississippi. Approximately 964,000 people reside within the property's primary target market.

The Isle-Biloxi

The Isle-Biloxi, which commenced operations in August 1992, is located on a 17-acre site at the eastern end of a cluster of facilities formerly known as "Casino Row" in Biloxi, Mississippi, and is the first property reached by visitors coming from Alabama, Florida and Georgia via Highway 90.

On August 29, 2005 the property was significantly damaged by Hurricane Katrina. The property was closed on August 28, 2005 and remained closed to the public until December 26, 2005. The Highway 90 bridge spanning Biloxi Bay, located to the east of the property, was also destroyed. The bridge is expected to be replaced with a new, larger bridge within the next 18 months.

In October 2005, the Mississippi legislature amended the gaming laws to allow casinos to operate land-based facilities within 800 feet of the shore. The Isle-Biloxi re-opened on December 26, 2005 with a land-based casino offering approximately 1,179 gaming positions, a 728-room hotel including 200 whirlpool suites, a 120-seat restaurant named "A Taste of Farradays'," a 200-seat Calypso's buffet, a Tradewinds Express and 900 parking spaces. In late May 2006, Isle-Biloxi completed the renovation of its existing atrium that added a new multi-story feature bar, connected the parking garage with the atrium by a covered walkway, and increased the number of gaming positions to approximately 1,600.

Prior to Hurricane Katrina, the Mississippi Gulf Coast market (which includes Biloxi, Gulfport and Bay St. Louis) was one of the largest gaming markets in the United States and consisted of 12 dockside gaming facilities which, in the aggregate, generated gaming revenues of approximately \$1.2 billion in calendar year 2004. Comparable gaming revenue information for this market is not available for calendar year 2005 due to the impact of Hurricane Katrina. Since our re-opening in December 2005, four other competitors have re-entered the market: the Imperial Palace, Palace Casino Resort, Treasure Bay and Boomtown. During our fiscal 2007 we anticipate additional casinos to re-enter the market, although the effect of this additional competition cannot be determined.

The Isle-Natchez

The Isle-Natchez, which was acquired in March 2000, is located off of Highways 84 and 61 in western Mississippi. The property consists of a dockside casino offering 648 slot machines and 19 table games, a 143-room off-site hotel located approximately one mile from the casino, a 150-seat Calypso's buffet and 908 parking spaces.

The Isle-Natchez is the only gaming facility in the Natchez market and generated gaming revenues of approximately \$42.3 million in calendar year 2005. We believe that the Isle-Natchez attracts customers primarily from among the 110,000 people residing within 50 miles of the Isle-Natchez.

Missouri

The Isle-Kansas City

The Isle-Kansas City which was acquired in June 2000, is the closest facility to downtown Kansas City and consists of a dockside casino offering 1,533 slot machines, 27 table games and 6 poker tables, a 96-seat Farradays' Bistro restaurant, a 372-seat Calypso's buffet, a 45-seat Tradewinds Marketplace and 1,947 parking spaces. We are currently in the design phase of an \$85 million expansion project at Isle-Kansas City. The planned expansion project will improve guest traffic patterns and renovate existing gaming space. Exterior plans include a new, updated entryway, exterior facade refinishing, reconfiguration of existing parking, and the addition of 1,000 parking spaces. Plans for the casino interior include expanding and renovating the gaming area including 400 additional slots and adding an entertainment venue to seat at least 1,000 guests, as well as, additional food and beverage amenities. The planned Kansas City expansion project is subject to negotiation of an amended lease and development agreement and receipt of necessary permits and approvals.

The Kansas City market consists of four dockside gaming facilities that, in the aggregate, generated gaming revenues of approximately \$688.2 million in calendar year 2005. The other operators of dockside gaming facilities in this market are Ameristar Casinos, Penn National Gaming (formerly Argosy Gaming) and Harrah's Entertainment. We believe that the Isle-Kansas City attracts customers primarily from the Kansas City metropolitan area, which has approximately 1.9 million residents.

The Isle-Boonville

The Isle-Boonville, which opened on December 6, 2001, is located off of Interstate 70, approximately halfway between Kansas City and St. Louis. The property consists of a single level dockside casino offering 902 slot machines, 28 table games and 6 poker tables, a 140-room hotel that opened in June 2006, a 32,400 square foot pavilion and entertainment center and 1,079 parking spaces. The pavilion and entertainment center offers customers a wide variety of non-gaming amenities, including a 92-seat Farradays' restaurant, a 270-seat Calypso's buffet, a 32-seat Tradewinds Marketplace and a historic display area. Isle-Boonville's new hotel includes 20 suites and an 800-seat event center. The Isle-Boonville is the only gaming facility between Kansas City, Missouri, and St. Louis, Missouri and generated gaming revenues of approximately \$75.2 million in calendar year 2005.

Iowa

The Isle-Bettendorf

The Isle-Bettendorf, which we acquired in March 2000, is located off of Interstate 74, an interstate highway serving the Quad Cities metropolitan area. The property consists of a dockside casino offering 1,122 slot machines and 28 table games, a 256-room hotel, approximately 20,500 square feet of convention/banquet space, a 140-seat Farradays' restaurant, a 320-seat Calypso's buffet, a 30-seat Tradewinds Marketplace and 1,539 parking spaces. We have signed a development agreement with the City of Bettendorf pursuant to which we are constructing a new 250-room Isle hotel, additional parking and an additional restaurant. Also, the City agreed to construct a 50,000 square foot convention center adjacent to the facility, which will be managed by the Isle-Bettendorf. The cost of our portion of this project will be approximately \$45 million, and the new hotel is scheduled to open in the spring of 2007.

The Quad Cities metropolitan area, consisting of Bettendorf and Davenport, Iowa and Moline and Rock Island, Illinois currently has three gaming operations - our two gaming facilities, the Isle-Bettendorf and the Rhythm City-Davenport, and one smaller operator. The three operations in the Quad Cities generated, in the aggregate, gaming revenues of approximately \$217.8 million in calendar year 2005. In addition to the Quad Cities metropolitan area, our operations in the Quad Cities also compete with other gaming operations in Illinois and Iowa.

The Rhythm City-Davenport

The Rhythm City-Davenport, which we acquired in October 2000, is located between Interstates 74, 80 and 280. The property consists of a dockside gaming facility offering 1,024 slot machines and 17 table games, a 290-seat Hit Parade buffet, a 76-seat Rock Around the Clock diner and 984 parking spaces. The Rhythm City-Davenport also operates a 121-room off-site hotel located approximately four blocks from the casino. The hotel has been closed since February 2006, due to damage from a fire.

The Isle-Marquette

The Isle-Marquette, which we acquired in March 2000, is located in Marquette, Iowa, approximately 60 miles north of Dubuque, Iowa. The property consists of a dockside casino offering 708 slot machines and 15 table games, a land-based facility which includes a 160-seat Calypso's buffet restaurant, a Tradewinds Marketplace, an entertainment showroom, a 25-room hotel, a marina and 490 parking spaces.

The Isle-Marquette is the only gaming facility in the Marquette, Iowa market, and generated gaming revenues of approximately \$42.6 million in calendar year 2005. We believe the Isle-Marquette draws most of its customers from northeast Iowa and Wisconsin and to some extent, competes for those customers with other gaming facilities in Iowa and Wisconsin.

Colorado

The Isle-Black Hawk

The Isle-Black Hawk, which commenced operations in December 1998, is located on an approximately 10-acre site and is one of the first gaming facilities reached by customers arriving from Denver via Highway 119, the main thoroughfare connecting Denver to Black Hawk. The property includes a land-based casino with 1,378 slot machines and 18 table games, a 238-room hotel and 1,100 parking spaces in an attached parking garage. The Isle-Black Hawk also offers customers a wide variety of non-gaming amenities, including a 96-seat Farradays' restaurant, a 228-seat Calypso's buffet, a 32-seat Tradewinds Marketplace and a 4,000 square foot event center that can be used for meetings and entertainment. We own 57% of the Isle-Black Hawk through an unrestricted subsidiary and receive a management fee for operating the facility.

The Colorado Central Station-Black Hawk

The Colorado Central Station-Black Hawk, which we acquired in April 2003, is located across the intersection of Main Street and Mill Street from the Isle-Black Hawk. The property currently consists of a land-based casino with 778 slot machines, 15 table games, a 162-room hotel that opened December 24, 2005 and 1,200 parking spaces in our new parking structure connecting Isle-Black Hawk and Colorado Central Station-Black Hawk. The property also offers guests dining in its food court that was opened in 2005 featuring three distinct dining options. We own 57% of the Colorado Central Station-Black Hawk through an unrestricted subsidiary and receive a management fee for operating the facility.

The Black Hawk/Central City market consists of 26 gaming facilities (six of which have more than 600 slot machines), which, in aggregate, generated gaming revenues of approximately \$604.7 million in calendar year 2005. Black Hawk is the closest gaming market to the Denver, Colorado metropolitan area, which has a population of approximately 2.6 million and which is located approximately 40 miles east of Black Hawk. We believe that the Isle-Black Hawk and Colorado Central Station-Black Hawk attract customers primarily from Denver, Boulder, Fort Collins and Golden, Colorado and Cheyenne, Wyoming.

Florida

Pompano Park

In 1995, we acquired Pompano Park, a harness racing track located in Pompano Beach, Florida. Pompano Park is conveniently located off of Interstate 95 and the Florida Turnpike on a 223-acre owned site, near Fort Lauderdale, midway between Miami and West Palm Beach. Pompano Park is the only racetrack licensed to conduct harness racing in Florida. During the fiscal year ended April 30, 2006, Pompano Park conducted 149 live racing programs. Pompano Park can accommodate up to 14,500 customers and has 4,000 parking spaces and 1,040 horse stalls. The six-story, air-conditioned facility consists of 21 poker tables, a box seat area, a 277,000 square foot clubhouse, a large grandstand, a 1,250-seat dining area from which the races can be viewed, five concession stands, five bars and a 180-seat Player's Lounge cafeteria.

In November 2004, voters in the State of Florida voted to amend the state's constitution to allow the voters of Miami-Dade and Broward counties (Broward County is the location of the Pompano Park Racetrack) to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. Broward County voters passed their local referendum and Dade county voters rejected their referendum in March 2005. In December 2005, the Florida legislature passed legislation to permit the operation of 1,500 slot machines at Pompano Park. We are constructing a gaming facility including 1,500 slot machines, four restaurants and feature bar at Pompano Park adjacent to the existing grandstand at a cost of approximately \$140 million with slot machine gaming anticipated to commence in early 2007. This facility has drawn and we anticipate will continue to draw most of its customers from the 2.6 million people residing within a 25-mile radius.

Grand Bahama Island

The Isle-Our Lucaya

The Isle-Our Lucaya is a 19,000 square-foot resort-style casino located in Freeport, Grand Bahama that offers 351 slot machines, 33 table games and a 110-seat restaurant.

United Kingdom

Blue Chip-Dudley

The pub-style casino in Dudley, England is one of 17 gaming facilities in the West Midlands market. Dudley is close to the Birmingham metropolitan area, which has a population of approximately 5.3 million. The casino consists of 10 slot machines, 29 table games and 63 parking spaces. We own two-thirds of the Blue Chip-Dudley through an unrestricted subsidiary.

Blue Chip-Wolverhampton

The pub-style casino in Wolverhampton, England is also in the West Midlands market. Wolverhampton is close to the Birmingham metropolitan area. The casino consists of 10 slot machines, 48 table games and 20 parking spaces. We own two-thirds of the Blue Chip-Wolverhampton through an unrestricted subsidiary.

Blue Chip-Walsall

The pub-style casino in Walsall, England is also in the West Midlands market. Walsall is close to the Birmingham metropolitan area. The casino consists of 10 slot machines and 51 table games. We own two-thirds of the Blue Chip-Walsall through an unrestricted subsidiary.

Coventry

We have obtained a gaming license to open a casino at RICOH™ Arena in Coventry, England under the 1968 Gambling Act and are currently constructing this facility. Additionally, we are exploring our options with respect to overall development plans for this property, including a possible entertainment facility.

Marketing

We attract customers to our casinos by designing and implementing marketing and promotional programs that leverage our Isle of Capri, Rhythm City and Colorado Central Station brands by building customer loyalty. We have developed an extensive proprietary database of primarily slot-oriented customers that allows us to create effective targeted marketing and promotional programs, merchandise giveaways, game tournaments and other special events. The programs are designed to reward customer loyalty, attract new customers to our properties and maintain high recognition of our brands. These promotional programs are designed to reward customer loyalty and maintain high recognition of our brands.

The Company has enhanced its gaming service by installing the IGT Advantage™ Casino System at our properties in Mississippi, Lake Charles, La. and Colorado Central Station in Black Hawk. The state-of-the-art system interfaces with our proprietary IsleOne marketing system giving the Company a robust platform for future automated marketing programs. The Mississippi properties feature one such program called IslePlay allowing customers to redeem direct marketing offers electronically. Deployment of the IGT Advantage™ Casino System continues at our properties in Missouri and Iowa at this time.

As of April 30, 2006, our database contained approximately 6.9 million members, of whom approximately 1.6 million receive regular mailings. To develop this database, we offer all of our customers a membership in the IsleOne Players Club at Isle of Capri properties, the Fan Club at the Rhythm City-Davenport and the Fast Track Club at the Colorado Central Station property. These programs reward loyal customers with points that can be redeemed at our casinos by using our player's club card. Currently, the player's club card allows us to track the members' gaming preferences, maximum, minimum and total amount wagered and frequency of visits. Players are classified in groups according to these characteristics. Our database is used for direct marketing programs and other promotional events that are tailored to these specific groups of players. We believe we have effectively used our database to encourage repeat visits, increase customers' length of stay and improve our operating results.

We place significant emphasis on attracting local residents and seek to maintain a strong local identity in each market in which we operate by initiating and supporting community and special events. We use broadcast media to promote our brands and attract customers to our properties.

Employees

As of April 30, 2006, we employed approximately 8,516 people, which excludes employees at Isle-Vicksburg and Isle-Bossier City, which are presented as discontinued operations. None of our employees are subject to a collective bargaining agreement. We believe that our relationship with our employees is satisfactory.

Regulation and Licensing

The ownership and operation of casino gaming facilities are subject to extensive state and local regulations. We are required to obtain and maintain gaming licenses in each of the jurisdictions in which we conduct gaming. The limitation, conditioning or suspension of gaming licenses could (and the revocation or non-renewal of gaming licenses, or the failure to reauthorize gaming in certain jurisdictions, would) materially adversely affect our operation in that jurisdiction. In addition, changes in law that restrict or prohibit our gaming operations in any jurisdiction could have a material adverse effect on us.

Louisiana

In July 1991, Louisiana enacted legislation permitting certain types of gaming activity on certain rivers and waterways in Louisiana. The legislation granted authority to supervise riverboat gaming activities to the Louisiana Riverboat Gaming Commission and the Riverboat Gaming Enforcement Division of the Louisiana State Police. The Louisiana Riverboat Gaming Commission was authorized to hear and determine all appeals relative to the granting, suspension, revocation, condition or renewal of all licenses, permits and applications. In addition, the Louisiana Riverboat Gaming Commission established regulations concerning authorized routes, duration of excursions, minimum levels of insurance, construction of riverboats and periodic inspections. The Riverboat Gaming Enforcement Division of the Louisiana State Police was authorized to investigate applicants and issue licenses, investigate violations of the statute and conduct continuing reviews of gaming activities.

In May 1996, regulatory oversight of riverboat gaming was transferred to the Louisiana Gaming Control Board, which is comprised of nine voting members appointed by the governor. The Louisiana Gaming Control Board now oversees all licensing matters for riverboat casinos, land-based casinos, racinos, video poker and certain aspects of Native American gaming other than those responsibilities reserved to the Louisiana State Police.

The Louisiana Gaming Control Board is empowered to issue up to 15 licenses to conduct gaming activities on a riverboat in accordance with applicable law. However, no more than six licenses may be granted to riverboats operating from any one designated waterway.

The Louisiana State Police continues to be involved broadly in gaming enforcement and reports to the Louisiana Gaming Control Board. Louisiana law permits the Louisiana State Police, among other things, to continue to (1) conduct suitability investigations, (2) audit, investigate and enforce compliance with standing regulations, (3) initiate enforcement and administrative actions and (4) perform "all other duties and functions necessary for the efficient, efficacious, and thorough regulation and control of gaming activities and operations" under the Louisiana Gaming Control Board's jurisdiction.

Louisiana gaming law specifies certain restrictions relating to the operation of riverboat gaming, including the following:

- agents of the Louisiana State Police are permitted on board at any time during gaming operations;
- gaming devices, equipment and supplies may only be purchased or leased from permitted suppliers and, with respect to gaming equipment, from permitted manufacturers;
- gaming may only take place in the designated gaming area while the riverboat is docked on a designated river or waterway;
- gaming equipment may not be possessed, maintained or exhibited by any person on a riverboat except in the specifically designated gaming area or in a secure area used for inspection, repair or storage of such equipment;
 - wagers may be received only from a person present on a licensed riverboat;
 - persons under 21 are not permitted in designated gaming areas;
- except for slot machine play, wagers may be made only with tokens, chips or electronic cards purchased from the licensee aboard a riverboat;
- licensees may only use docking facilities and routes for which they are licensed and may only board and discharge passengers at the riverboat's licensed berth;
 - licensees must have adequate protection and indemnity insurance;
- licensees must have all necessary federal and state licenses, certificates and other regulatory approvals prior to operating a riverboat; and
 - gaming may only be conducted in accordance with the terms of the license and Louisiana law.

To receive a gaming license in Louisiana, an applicant must be found to be a person of good character, honesty and integrity and a person whose prior activities, criminal record, if any, reputation, habits and associations do not (1) pose a threat to the public interest of the State of Louisiana or to the effective regulation and control of gaming or (2) create or enhance the dangers of unsuitable, unfair or illegal practices, methods and activities in the conduct of gaming or the carrying on of business and financial arrangements of gaming activities. In addition, the Louisiana Gaming Control Board will not grant a license unless it finds that, among other things:

- the applicant can demonstrate the capability, either through training, education, business experience or a combination of the preceding, to operate a gaming operation;
- the proposed financing of the riverboat and the gaming operations is adequate for the nature of the proposed operation and is from a suitable and acceptable source;

- the applicant demonstrates a proven ability to operate a vessel of comparable size, capacity and complexity to a riverboat so as to ensure the safety of its passengers;
- the applicant submits with its application for a license a detailed plan of design of the riverboat;
 - the applicant designates the docking facilities to be used by the riverboat;
 - the applicant shows adequate financial ability to construct and maintain a riverboat; and
- the applicant has a good faith plan to recruit, train and upgrade minorities in all employment classifications.

An initial license to conduct riverboat gaming operations is valid for a term of five years and legislation passed in the 1999 legislative session provides for renewals every five years thereafter. Louisiana gaming law provides that a renewal application for the period succeeding the initial five-year term of an operator's license must be made to the Louisiana Gaming Control Board and must include a statement under oath of any and all changes in information, including financial information, provided in the previous application. The transfer of a license or an interest in a license is prohibited. A gaming license is deemed to be a privilege under Louisiana law and, as such, may be denied, revoked, suspended, conditioned or limited at any time by the Louisiana Gaming Control Board. The Isle-Bossier City and the Isle-Lake Charles each received a five-year renewal of their license on July 20, 1999.

On April 9, 2004, the Isle-Bossier City and the Isle-Lake Charles filed applications for a second five year renewal of their three licenses. These five year renewal applications were approved for Louisiana Riverboat Gaming Partnership and Grand Palais Riverboat, Inc. on August 17, 2004 and St. Charles Gaming Company, Inc. was approved on March 29, 2005.

Certain persons affiliated with a riverboat gaming licensee, including directors and officers of the licensee, directors and officers of any holding company of the licensee involved in gaming operations, persons holding 5% or greater interests in the licensee and persons exercising influence over a licensee, are subject to the application and suitability requirements of Louisiana gaming law.

The sale, purchase, assignment, transfer, pledge or other hypothecation, lease, disposition or acquisition by any person of securities that represent 5% or more of the total outstanding shares issued by a licensee is subject to the approval of the Louisiana Gaming Control Board. A security issued by a licensee must generally disclose these restrictions. Prior approval from the Louisiana Gaming Control Board is required for the sale, purchase, assignment, transfer, pledge or other hypothecation, lease, disposition or acquisition of any ownership interest of 5% or more of any non-corporate licensee or for the transfer of any "economic interest" of 5% or more of any licensee or affiliated gaming person. An "economic interest" is defined as any interest whereby a person receives or is entitled to receive, by agreement or otherwise, a profit, gain, thing of value, loan, credit, security interest, ownership interest or other benefit.

Fees payable to the state for conducting gaming activities on a riverboat include (1) \$50,000 per riverboat for the first year of operation and \$100,000 per year per riverboat thereafter, plus (2) 18.5% of net gaming proceeds. Legislation was passed during the 2001 legislative session that allowed those riverboats that had been required to conduct cruises, including the riverboats at the Isle-Lake Charles, to remain permanently dockside beginning April 1, 2001. The legislation also increased the gaming tax for operators from 18.5% to 21.5%. A statute also authorizes local governing authorities to levy boarding fees. We currently have development agreements in Lake Charles with certain local governing authorities in the jurisdictions in which we operate pursuant to which we make payments in lieu of boarding fees.

A licensee must notify and/or seek approval from the Louisiana Gaming Control Board in connection with any withdrawals of capital, loans, advances or distributions in excess of 5% of retained earnings for a corporate licensee, or of capital accounts for a partnership or limited liability company licensee, upon completion of any such transaction. The Louisiana Gaming Control Board may issue an emergency order for not more than ten days prohibiting payment of profits, income or accruals by, or investments in, a licensee. Unless excepted or waived by the Louisiana Gaming Control Board, riverboat gaming licensees and their affiliated gaming persons must notify the Louisiana Gaming Control Board 60 days prior to the receipt by any such persons of any loans or extensions of credit or modifications thereof. The Louisiana Gaming Control Board is required to investigate the reported loan, extension of credit or modification thereof and to determine whether an exemption exists on the requirement of prior written approval and, if such exemption is not applicable, to either approve or disapprove the transaction. If the Louisiana Gaming Control Board disapproves of a transaction, the transaction cannot be entered into by the licensee or affiliated gaming person. We are an affiliated gaming person of our subsidiaries that hold the licenses to conduct riverboat gaming at the Isle-Bossier City and the Isle-Lake Charles.

The failure of a licensee to comply with the requirements set forth above may result in the suspension or revocation of that licensee's gaming license. Additionally, if the Louisiana Gaming Control Board finds that the individual owner or holder of a security of a corporate license or intermediary company or any person with an economic interest in a licensee is not qualified under Louisiana law, the Louisiana Gaming Control Board may require, under penalty of suspension or revocation of the license, that the person not:

- receive dividends or interest on securities of the corporation;
- exercise directly or indirectly a right conferred by securities of the corporation;
- receive remuneration or economic benefit from the licensee;
- exercise significant influence over activities of the licensee; or
- continue its ownership or economic interest in the licensee.

A licensee must periodically report the following information to the Louisiana Gaming Control Board, which is not confidential and is available for public inspection: (1) the licensee's net gaming proceeds from all authorized games, (2) the amount of net gaming proceeds tax paid and (3) all quarterly and annual financial statements presenting historical data, including annual financial statements that have been audited by an independent certified public auditor.

During the 1996 special session of the Louisiana legislature, legislation was enacted placing on the ballot for a statewide election a constitutional amendment limiting the expansion of gaming, which was subsequently passed by the voters. As a result, local option elections are required before new or additional forms of gaming can be brought into a parish.

Proposals to amend or supplement Louisiana's riverboat gaming statute are frequently introduced in the Louisiana State Legislature. There is no assurance that changes in Louisiana gaming law will not occur or that such changes will not have a material adverse effect on our business in Louisiana.

Mississippi

In June 1990, Mississippi enacted legislation legalizing dockside casino gaming for counties along the Mississippi River, which is the western border for most of the state, and the Gulf Coast, which is the southern border for most of the state. The legislation gave each of those counties the opportunity to hold a referendum on whether to allow dockside casino gaming within its boundaries.

In its 2005 regular session, the legislature amended Mississippi law to allow gaming to be conducted on vessels or cruise vessels placed upon permanent structures located on, in or above the Mississippi River, on, in or above navigable waters in eligible counties along the Mississippi River or on, in or above the waters lying south of the counties along the Mississippi Gulf Coast. Later, after Hurricane Katrina, the Mississippi legislature again amended the law to allow land-based gaming along the Gulf Coast in very limited circumstances. Mississippi law permits unlimited stakes gaming, on a 24-hour basis and does not restrict the percentage of space that may be utilized for gaming. There are no limitations on the number of gaming licenses that may be issued in Mississippi.

The ownership and operation of gaming facilities in Mississippi are subject to extensive state and local regulation intended to:

- prevent unsavory or unsuitable persons from having any direct or indirect involvement with gaming at any time or in any capacity;
 - establish and maintain responsible accounting practices and procedures for gaming operations;
- maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and safeguarding of assets and revenues, providing reliable record keeping and making periodic reports;
 - provide a source of state and local revenues through taxation and licensing fees;
 - prevent cheating and fraudulent practices; and
- ensure that gaming licensees, to the extent practicable, employ Mississippi residents.

State gaming regulations are subject to amendment and interpretation by the Mississippi Gaming Commission. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted in Mississippi and such changes, if enacted, could have an adverse effect on us and our Mississippi gaming operations.

We are registered as a publicly traded corporation under the Mississippi Gaming Control Act. Our gaming operations in Mississippi are subject to regulatory control by the Mississippi Gaming Commission, the State Tax Commission and various other local, city and county regulatory agencies (collectively referred to as the “Mississippi Gaming Authorities”). Our subsidiaries have obtained gaming licenses from the Mississippi Gaming Authorities. We must obtain a waiver from the Mississippi Gaming Commission before beginning any proposed gaming operations outside of Mississippi. The licenses held by our Mississippi gaming operations have terms of three years and are not transferable. The Isle-Biloxi, the Isle-Vicksburg, the Isle-Natchez and the Isle-Lula hold licenses effective from May 23, 2006, through May 22, 2009. In addition, our wholly-owned subsidiary, IOC Manufacturing, Inc. holds a manufacturer and distributor’s license, so that we may perform certain upgrades to our Mississippi player tracking system. This license has a term of three years, is effective from June 16, 2005, through June 15, 2008, and is not transferable. There is no assurance that new licenses can be obtained at the end of each three-year period of a license. Moreover, the Mississippi Gaming Commission may, at any time, and for any cause it deems reasonable, revoke, suspend, condition, limit or restrict a license or approval to own shares of stock in our subsidiaries that operate in Mississippi.

Substantial fines for each violation of Mississippi’s gaming laws or regulations may be levied against us, our subsidiaries and the persons involved. Disciplinary action against us or one of our subsidiary gaming licensees in any jurisdiction may lead to disciplinary action against us or any of our subsidiary licensees in Mississippi, including, but not limited to, the revocation or suspension of any such subsidiary gaming license.

We, along with each of our Mississippi gaming subsidiaries, must periodically submit detailed financial, operating and other reports to the Mississippi Gaming Commission and/or the State Tax Commission. Numerous transactions, including but not limited to substantially all loans, leases, sales of securities and similar financing transactions entered into by any of our Mississippi gaming subsidiaries must be reported to or approved by the Mississippi Gaming Commission. In addition, the Mississippi Gaming Commission may, at its discretion, require additional information about our operations.

Certain of our officers and employees and the officers, directors and certain key employees of our Mississippi gaming subsidiaries must be found suitable or be licensed by the Mississippi Gaming Commission. We believe that all required findings of suitability and key employee licenses related to all of our Mississippi properties have been applied for or obtained, although the Mississippi Gaming Commission at its discretion may require additional persons to file applications for findings of suitability or key employee licenses. In addition, any person having a material relationship or involvement with us may be required to be found suitable or licensed, in which case those persons must pay the costs and fees associated with such investigation. The Mississippi Gaming Commission may deny an application for a finding of suitability for any cause that it deems reasonable. Changes in certain licensed positions must be reported to the Mississippi Gaming Commission. In addition to its authority to deny an application for a finding of suitability, the Mississippi Gaming Commission has jurisdiction to disapprove a change in a licensed position. The Mississippi Gaming Commission has the power to require us and any of our Mississippi gaming subsidiaries to suspend or dismiss officers, directors and other key employees or to sever relationships with other persons who refuse to file appropriate applications or who the authorities find unsuitable to act in such capacities.

Employees associated with gaming must obtain work permits that are subject to immediate suspension under certain circumstances. The Mississippi Gaming Commission will refuse to issue a work permit to a person who has been convicted of a felony, committed certain misdemeanors or knowingly violated the Mississippi Gaming Control Act, and it may refuse to issue a work permit to a gaming employee for any other reasonable cause.

At any time, the Mississippi Gaming Commission has the power to investigate and require the finding of suitability of any record or beneficial stockholder of ours. The Mississippi Gaming Control Act requires any person who individually or in association with others acquires, directly or indirectly, beneficial ownership of more than 5% of our common stock to report the acquisition to the Mississippi Gaming Commission, and such person may be required to be found suitable. In addition, the Mississippi Gaming Control Act requires any person who, individually or in association with others, becomes, directly or indirectly, a beneficial owner of more than 10% of our common stock, as reported to the U.S. Securities and Exchange Commission, to apply for a finding of suitability by the Mississippi Gaming Commission and pay the costs and fees that the Mississippi Gaming Commission incurs in conducting the investigation.

The Mississippi Gaming Commission has generally exercised its discretion to require a finding of suitability of any beneficial owner of more than 5% of a registered publicly traded corporation's stock. However, the Mississippi Gaming Commission has adopted a regulation that may permit certain "institutional" investors to obtain waivers that allow them to beneficially own, directly or indirectly, up to 15% (19% in certain specific instances) of the voting securities of a registered publicly traded corporation without a finding of suitability. If a stockholder who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information, including a list of beneficial owners.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Mississippi Gaming Commission may be found unsuitable. We believe that compliance by us with the licensing procedures and regulatory requirements of the Mississippi Gaming Commission will not affect the marketability of our securities. Any person found unsuitable who holds, directly or indirectly, any beneficial ownership of our securities beyond such time as the Mississippi Gaming Commission prescribes may be guilty of a misdemeanor. We are subject to disciplinary action if, after receiving notice that a person is unsuitable to be a stockholder or to have any other relationship with us or our subsidiaries operating casinos in Mississippi, we:

- pay the unsuitable person any dividend or other distribution upon its voting securities;
- recognize the exercise, directly or indirectly, of any voting rights conferred by its securities;
- pay the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain limited and specific circumstances; or
- fail to pursue all lawful efforts to require the unsuitable person to divest itself of the securities, including, if necessary, our immediate purchase of the securities for cash at a fair market value.

We may be required to disclose to the Mississippi Gaming Commission upon request the identities of the holders of any of our debt securities. In addition, under the Mississippi Gaming Control Act, the Mississippi Gaming Commission may, in its discretion, (1) require holders of our securities, including our notes, to file applications, (2) investigate such holders and (3) require such holders to be found suitable to own such securities. Although the Mississippi Gaming Commission generally does not require the individual holders of obligations such as the notes to be investigated and found suitable, the Mississippi Gaming Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Gaming Commission in

connection with such an investigation.

The Mississippi regulations provide that a change in control of us may not occur without the prior approval of the Mississippi Gaming Commission. Mississippi law prohibits us from making a public offering of our securities without the approval of the Mississippi Gaming Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi, or to retire or extend obligations incurred for one or more such purposes. The Mississippi Gaming Commission has the authority to grant a continuous approval of securities offerings and has granted such approval to us, subject to renewal every three years.

Regulations of the Mississippi Gaming Commission prohibit certain repurchases of securities of publicly traded corporations registered with the Mississippi Gaming Commission, including holding companies such as ours, without prior approval of the Mississippi Gaming Commission. Transactions covered by these regulations are generally aimed at discouraging repurchases of securities at a premium over market price from certain holders of greater than 3% of the outstanding securities of the registered publicly traded corporation. The regulations of the Mississippi Gaming Commission also require prior approval for a “plan of recapitalization” as defined in such regulations.

We must maintain in the State of Mississippi current stock ledgers, which may be examined by the Mississippi Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We must render maximum assistance in determining the identity of the beneficial owner.

Mississippi law requires that certificates representing shares of our common stock bear a legend to the general effect that the securities are subject to the Mississippi Gaming Control Act and regulations of the Mississippi Gaming Commission. The Mississippi Gaming Commission has the authority to grant a waiver from the legend requirement, which we have obtained. The Mississippi Gaming Commission, through the power to regulate licenses, has the power to impose additional restrictions on the holders of our securities at any time.

The Mississippi Gaming Commission enacted a regulation in 1994 requiring that, as a condition to licensure, an applicant must provide a plan to develop infrastructure facilities amounting to 25% of the cost of the casino and a parking facility capable of accommodating 500 cars. In 1999, the Mississippi Gaming Commission approved amendments to this regulation that increased the infrastructure development requirement from 25% to 100% for new casinos (or upon acquisition of a closed casino), but grandfathered existing licensees and development plans approved prior to the effective date of the new regulation. “Infrastructure facilities” include any of the following:

- a 250-room or larger hotel of at least a two-star rating as defined by the current edition of the Mobil Travel Guide;
- theme parks;
- golf courses;
- marinas;
- entertainment facilities;

- tennis complexes; or
- any other facilities approved by the Mississippi Gaming Commission.

Parking facilities, roads, sewage and water systems or civic facilities are not considered “infrastructure facilities.” The Mississippi Gaming Commission may reduce the number of rooms required in a hotel if it is satisfied that sufficient rooms are available to accommodate the anticipated number of visitors. In 2003 and in 2006, the Mississippi Gaming Commission again amended its regulation regarding development plan approval but left the 100% infrastructure requirement intact.

License fees and taxes are payable to the State of Mississippi and to the counties and cities in which a Mississippi gaming subsidiary’s respective operations will be conducted. The license fee payable to the state of Mississippi is based upon gross revenue of the licensee (generally defined as gaming receipts less payout to customers as winnings) and equals 4% of gross revenue of \$50,000 or less per month, 6% of gross revenue in excess of \$50,000 but less than \$134,000 per calendar month, and 8% of gross revenue in excess of \$134,000 per calendar month. The foregoing license fees are allowed as a credit against the licensee’s Mississippi income tax liability for the year paid. Additionally, a licensee must pay a \$5,000 annual license fee and an annual fee based upon the number of games it operates. The gross revenue tax imposed by the Mississippi communities and counties in which our casino operations are located equals 0.4% of gross revenue of \$50,000 or less per calendar month, 0.6% of gross revenue over \$50,000 and less than \$134,000 per calendar month and 0.8% of gross revenue greater than \$134,000 per calendar month. These fees have been imposed in, among other cities and counties, Biloxi, Vicksburg, and Coahoma County. Certain local and private laws of the state of Mississippi may impose fees or taxes on the Mississippi gaming subsidiaries in addition to the fees described above.

The Mississippi Gaming Commission requires, as a condition of licensure or license renewal, that casino vessels on the Mississippi Gulf Coast that are not self-propelled must be moored to withstand a Category 4 hurricane with 155 mile-per-hour winds and 15-foot tidal surge. However, after Hurricane Katrina, Isle - Biloxi reopened its casino on shore rather than on a vessel. A 1996 Mississippi Gaming Commission regulation prescribes the hurricane emergency procedure to be used by the Mississippi Gulf Coast casinos.

The sale of food or alcoholic beverages at our Mississippi gaming locations is subject to licensing, control and regulation by the applicable state and local authorities. The agencies involved have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could (and revocation would) have a material adverse effect upon the operations of the affected casino or casinos. Certain of our officers and managers and our Mississippi gaming subsidiaries must be investigated by the Alcoholic Beverage Control Division of the State Tax Commission in connection with liquor permits that have been issued. The Alcoholic Beverage Control Division of the State Tax Commission must approve all changes in licensed positions.

On three separate occasions since 1998, certain anti-gaming groups have proposed referenda that, if adopted, would have banned gaming in Mississippi and required that gaming entities cease operations within two years after the ban. All three referenda were declared invalid by Mississippi courts because each lacked a required government revenue impact statement.

Missouri

Conducting gambling games and operating an excursion gambling boat in Missouri are subject to extensive regulation under Missouri's Riverboat Gambling Act and the rules and regulations promulgated thereunder. The Missouri Gaming Commission was created by the Missouri Riverboat Gambling Act and is charged with regulatory authority over riverboat gaming operations in Missouri, including the issuance of riverboat gaming licenses. In June 2000, IOC-Kansas City, Inc., a subsidiary of ours, was issued a riverboat gaming license in connection with our Kansas City operation. Additionally, in December 2001, IOC-Boonville, Inc., a subsidiary of ours, was issued a riverboat gaming license for our Boonville operation.

In order to obtain a riverboat gaming license, the proposed operating business entity must complete a Class A Riverboat Gaming Application, comprised of comprehensive application forms, including corroborating attachments, and undergo an extensive background investigation by the Missouri Gaming Commission. In addition, each key person associated with the applicant (including directors, officers, managers and owners of a significant direct or indirect interest in the applicant) must complete a Riverboat Gaming Application Form I and undergo a background investigation. Certain key business entities closely related to the applicant or "business entity key persons" must undergo a similar application process and background check. An applicant will not receive a license to conduct gambling games and to operate an excursion gambling boat if the applicant and its key persons have not established good repute and moral character and no licensee shall either employ or contract with any person who has pled guilty to, or been convicted of, a felony, to perform any duties directly connected with the licensee's privileges under a license granted by the Commission. Each license granted entitles a licensee to conduct gambling games on an excursion gambling boat or to operate an excursion gambling boat and the equipment thereon from a specific location. The duration of the license initially runs for two one-year terms; thereafter, two-year terms. In conjunction with the renewal of each license, the Missouri Gaming Commission requires an updated Class A Riverboat Gaming Application and, prior to the renewal of the license, conducts an additional investigation of the licensee and of us with specific emphasis on new information provided in the updated Class A Riverboat Gaming Application. The Commission also licenses the serving of alcoholic beverages on riverboats and related facilities.

In determining whether to grant a license, the Commission considers the following factors, among others: (i) the integrity of the applicants; (ii) the types and variety of games the applicant may offer; (iii) the quality of the physical facility, together with improvements and equipment, and how soon the project will be completed; (iv) the financial ability of the applicant to develop and operate the facility successfully; (v) the status of governmental actions required by the facility; (vi) management ability of the applicant; (vii) compliance with applicable statutes, rules, charters and ordinances; (viii) the economic, ecological and social impact of the facility as well as the cost of public improvements; (ix) the extent of public support or opposition; (x) the plan adopted by the home dock city or county; and (xi) effects on competition.

A licensee is subject to the imposition of penalties, suspension or revocation of its license for any act that is injurious to the public health, safety, morals, good order, and general welfare of the people of the State of Missouri, or that would discredit or tend to discredit the Missouri gaming industry or the State of Missouri, including without limitation: (i) failing to comply with or make provision for compliance with the legislation, the rules promulgated thereunder or any federal, state or local law or regulation; (ii) failing to comply with any rules, order or ruling of the Missouri Gaming Commission or its agents pertaining to gaming; (iii) receiving goods or services from a person or business entity who does not hold a supplier's license but who is required to hold such license by the legislation or the rules; (iv) being suspended or ruled ineligible or having a license revoked or suspended in any state or

gaming jurisdiction; (v) associating with, either socially or in business affairs, or employing persons of notorious or unsavory reputation or who have extensive police records, or who have failed to cooperate with any officially constituted investigatory or administrative body and would adversely affect public confidence and trust in gaming; (vi) employing in any Missouri gaming operation any person known to have been found guilty of cheating or using any improper device in connection with any gambling game; (vii) use of fraud, deception, misrepresentation or bribery in securing any license or permit issued pursuant to the legislation; (viii) obtaining any fee, charge, or other compensation by fraud, deception or misrepresentation; and (ix) incompetence, misconduct, gross negligence, fraud, misrepresentation or dishonesty in the performance of the functions or duties regulated by the Missouri Riverboat Gambling Act.

Any transfer or issuance of ownership interest in a publicly held gaming licensee or its holding company that results in an entity owning, directly or indirectly, an aggregate ownership interest of 5% or more in the gaming licensee must be reported to the Missouri Gaming Commission within seven days. Further, any pledge or hypothecation of 5% or more of the ownership interest in a publicly held gaming licensee or its holding company must be reported to the Missouri Gaming Commission within seven days.

Every employee participating in a riverboat gaming operation must hold an occupational license. In addition, the Missouri Gaming Commission issues supplier's licenses, which authorize the supplier licensee to sell or lease gaming equipment and supplies to any licensee involved in the operation of gaming operations.

Riverboat gaming operations may only be conducted on, or within 1,000 feet of the main channel of, the Missouri River or Mississippi River. Although, all of the excursion gambling facilities in Missouri are permanently moored boats or impounded barges, a two hour simulated cruise is imposed in order to ensure the enforcement of loss limit restrictions. Missouri law imposes a maximum loss per person per cruise of \$500. Minimum and maximum wagers on games are set by the licensee and wagering may be conducted only with a cashless wagering system, whereby money is converted to tokens, electronic cards or chips that can only be used for wagering. No person under the age of 21 is permitted to wager, and wagers may only be taken from a person present on a licensed excursion gambling boat.

The Missouri Riverboat Gambling Act imposes a 20% wagering tax on adjusted gross receipts (generally defined as gross receipts less winnings paid to wagers) from gambling games. The tax imposed is to be paid by the licensee to the Commission on the day after the day when the wagers were made. Of the proceeds of that tax, 10% goes to the local government where the home dock is located, and the remainder goes to the State of Missouri.

The Missouri Riverboat Gambling Act also requires that licensees pay a \$2.00 admission tax to the Missouri Gaming Commission for each person admitted to a gaming cruise. One dollar of the admission fee goes to the state and one dollar goes to the home dock city in which the licensee operates. The licensee is required to maintain public books and records clearly showing amounts received from admission fees, the total amount of gross receipts and the total amount of adjusted gross receipts. In addition, all local income, earnings, use, property and sales taxes are applicable to licensees. There have been from time to time pending before the Missouri General Assembly several proposed bills which individually or in combination would, if adopted, (1) remove the loss limit restriction, (2) adjust the amount of wagering tax imposed on adjusted gross receipts of licensees and/or (3) adjust the amount of admission tax paid by the licensee for each person admitted for a gaming cruise.

Iowa

In 1989, the State of Iowa legalized riverboat gaming on the Mississippi River and other waterways located in Iowa. The legislation authorized the granting of licenses to non-profit corporations that, in turn, are permitted to enter into operating agreements with qualified persons who also actually conduct riverboat gaming operations. Such operators must likewise be approved and licensed by the Iowa Racing and Gaming Commission (the "Iowa Gaming Commission").

The Isle-Bettendorf has the right to renew its operator's contract with the Scott County Regional Authority, a non-profit corporation organized for the purpose of facilitating riverboat gaming in Bettendorf, Iowa, for succeeding three-year periods as long as Scott County voters approve gaming in the jurisdiction. Under the operator's contract, the Isle-Bettendorf pays the Scott County Regional Authority a fee equal to 4.1% of the adjusted gross receipts. Further, the Isle-Bettendorf pays a fee to the City of Bettendorf equal to 1.65% of adjusted gross receipts.

In June 1994, Upper Mississippi Gaming Corporation, a non-profit corporation organized for the purpose of facilitating riverboat gaming in Marquette, Iowa, entered into an operator's agreement for the Isle-Marquette for a period of twenty-five years. Under the management agreement, the non-profit organization is to be paid a fee of \$0.50 per passenger. Further, pursuant to a dock site agreement (which also has a term of twenty-five years), the Isle-Marquette is required to pay a fee to the City of Marquette in the amount of \$1.00 per passenger, plus a fixed amount of \$15,000 per month and 2.5% of gaming revenues (less state wagering taxes) in excess of \$20.0 million but less than \$40.0 million; 5% of gaming revenues (less state wagering taxes) in excess of \$40.0 million but less than \$60.0 million; and 7.5% of gaming revenues (less state wagering taxes) in excess of \$60.0 million.

In October 2000, the Riverboat Development Authority, a non-profit corporation organized for the purpose of facilitating riverboat gaming in Davenport, Iowa, entered into an operator's agreement with the Isle-Davenport to conduct riverboat gaming in Davenport, Iowa. The operating agreement requires the Isle-Davenport to make weekly payments to the qualified sponsoring organization equal to 4.1% of each week's adjusted gross receipts (as defined in the enabling legislation) provided that the Isle-Davenport has agreed that the qualifying sponsoring organization will be paid at least the following minimums: (i) \$3,000,000 for the years ending June 30, 2006 and 2007; (ii) \$3,200,000 for the year ending June 30, 2008 if the Isle-Davenport's new hotel is open by September 30, 2007, otherwise \$3,000,000 and (iii) \$3,200,000 for the years ending June 30, 2009 and thereafter. This agreement will remain in effect through March 31, 2009 and may be extended by the Isle-Davenport so long as it holds a license to conduct gaming. In addition, the Isle-Davenport pays a docking fee, admission fee, gaming tax and a payment in lieu of taxes to the City of Davenport. Pursuant to a development agreement with the City, the Isle-Davenport has exclusive docking privileges in the City of Davenport until March 31, 2017 in consideration for this docking fee. The docking fee has both a fixed base and a per passenger increment. The fixed fee commenced April 1, 1994 at \$111,759 and increases annually by 4%. The incremental component is a \$0.10 charge for each passenger in excess of 1,117,579 passengers (which charge also increases by 4% per year). The City is also guaranteed an annual gaming tax of \$558,789.50 per year (based on a minimum passenger floor count of 1,117,579 passengers at \$0.50 per passenger). Finally, the Isle-Davenport is obligated to pay a payment in lieu of taxes to support the downtown development district. This annual lump sum payment is in the amount of \$123,516 plus \$0.20 per passenger in excess of 1,117,579 passengers. This payment in lieu of taxes is further subject to a minimum \$226,179 per year payment.

On July 26, 2005 the Isle-Davenport entered into a new development agreement with the City of Davenport that supersedes its existing development agreement. Upon satisfaction of certain conditions precedent, the docking fee and admission fee will be replaced by a development fee equal to 1.65% of

adjusted gross receipts. The conditions precedent were satisfied in June 2006 resulting in the aforementioned lease change. The term of the new development agreement is for fifty years. The development agreement also includes a payment in lieu of taxes in the amount equal to the real estate taxes on an assessed value of \$5,200,000 per year.

In November 2004, the Black Hawk County Gaming Association, a non-profit corporation organized for the purpose of facilitating riverboat gaming in Waterloo, Iowa entered into an operator's agreement with the Isle-Waterloo to conduct riverboat gaming in Waterloo, Iowa. The operating agreement requires that upon commencement of operations the Isle-Waterloo is to make weekly payments to the qualified sponsoring organization equal to 4.1% of each week's adjusted gross receipts and an additional fee of 1.65% of each week's adjusted gross receipts in lieu of any admission or docking fee which might otherwise be charged by the county or any city (as defined in Section 99F.1(1) of the Iowa Code). This agreement will remain in effect through March 31, 2015 and may be extended by the Isle-Waterloo so long as it holds a license to conduct gaming. In addition, the Isle-Waterloo has agreed to pay a development fee to the City. Pursuant to an admission fee administration and development agreement with the City and Black Hawk County Gaming Association the Isle-Waterloo shall pay a development fee equal to 0.5% of each week's adjusted gross receipts.

Iowa law permits gaming licensees to offer unlimited stakes gaming on games approved by the Iowa Gaming Commission on a 24-hour basis. Dockside casino gaming is authorized and the Iowa Gaming Commission now permits licensees the option to operate on permanently moored vessels or moored barges. The legal age for gaming is 21.

All Iowa licenses were approved for renewal at the March 2, 2006 Iowa Gaming Commission meeting. These licenses are not transferable and will need to be renewed in March 2007 and prior to the commencement of each subsequent annual renewal period.

The ownership and operation of gaming facilities in Iowa are subject to extensive state laws, regulations of the Iowa Gaming Commission and various county and municipal ordinances (collectively, the "Iowa Gaming Laws"), concerning the responsibility, financial stability and character of gaming operators and persons financially interested or involved in gaming operations. Iowa Gaming Laws seek to: (1) prevent unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (2) establish and maintain responsible accounting practices and procedures; (3) maintain effective control over the financial practices of licensees (including the establishment of minimum procedures for internal fiscal affairs, the safeguarding of assets and revenues, the provision of reliable record keeping and the filing of periodic reports with the Iowa Gaming Commission); (4) prevent cheating and fraudulent practices; and (5) provide a source of state and local revenues through taxation and licensing fees. Changes in Iowa Gaming Laws could have a material adverse effect on the Iowa gaming operations.

Gaming licenses granted to individuals must be renewed every year, and licensing authorities have broad discretion with regard to such renewals. Licenses are not transferable. The Iowa gaming operations must submit detailed financial and operating reports to the Iowa Gaming Commission. Certain contracts of licensees in excess of \$100,000 must be submitted to and approved by the Iowa Gaming Commission.

Certain officers, directors, managers and key employees of the Iowa gaming operations are required to be licensed by the Iowa Gaming Commission. Employees associated with gaming must obtain work permits that are subject to immediate suspension under specific circumstances. In addition, anyone having a material relationship or involvement with the Iowa gaming operations may be required to be found suitable or to be licensed, in which case those persons would be required to pay the costs

and fees of the Iowa Gaming Commission in connection with the investigation. The Iowa Gaming Commission may deny an application for a license for any cause deemed reasonable. In addition to its authority to deny an application for license, the Iowa Gaming Commission has jurisdiction to disapprove a change in position by officers or key employees and the power to require the Iowa gaming operations to suspend or dismiss officers, directors or other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the Iowa Gaming Commission finds unsuitable to act in such capacities.

The Iowa Gaming Commission may revoke a gaming license if the licensee:

- has been suspended from operating a gaming operation in another jurisdiction by a board or commission of that jurisdiction;
- has failed to demonstrate financial responsibility sufficient to meet adequately the requirements of the gaming enterprise;
 - is not the true owner of the enterprise;
 - has failed to disclose ownership of other persons in the enterprise;
- is a corporation 10% of the stock of which is subject to a contract or option to purchase at any time during the period for which the license was issued, unless the contract or option was disclosed to the Iowa Gaming Commission and the Iowa Gaming Commission approved the sale or transfer during the period of the license;
 - knowingly makes a false statement of a material fact to the Iowa Gaming Commission;
 - fails to meet a monetary obligation in connection with an excursion gaming boat;
 - pleads guilty to, or is convicted of a felony;
- loans to any person, money or other thing of value for the purpose of permitting that person to wager on any game of chance;
- is delinquent in the payment of property taxes or other taxes or fees or a payment of any other contractual obligation or debt due or owed to a city or county; or
- assigns, grants or turns over to another person the operation of a licensed excursion boat (this provision does not prohibit assignment of a management contract approved by the Iowa Gaming Commission) or permits another person to have a share of the money received for admission to the excursion boat.

If it were determined that the Iowa Gaming Laws were violated by a licensee, the gaming licenses held by a licensee could be limited, made conditional, suspended or revoked. In addition, the licensee and the persons involved could be subject to substantial fines for each separate violation of the Iowa Gaming Laws in the discretion of the Iowa Gaming Commission. Limitations, conditioning or suspension of any gaming license could (and revocation of any gaming license would) have a material adverse effect on operations.

The Iowa Gaming Commission may also require any individual who has a material relationship with the Iowa gaming operations to be investigated and licensed or found suitable. The Iowa Gaming Commission, prior to the acquisition, must approve any person who acquires 5% or more of a licensee's equity securities. The applicant stockholder is required to pay all costs of this investigation.

Gaming taxes approximating 22% of the adjusted gross receipts will be payable by each licensee on its operations to the State of Iowa. In addition, the second of two prepaid assessments was paid on June 1, 2006 in an amount equal to 2.152% of each licensee's adjusted gross receipts for fiscal year 2004. These assessments will be offset by future state gaming taxes paid by each licensee with a credit for 20% of the assessments paid allowed each year beginning July 1, 2010 for five consecutive years. The state of Iowa is also reimbursed by the licensees for all costs associated with monitoring and enforcement by the Iowa Gaming Commission and the Iowa Department of Criminal Investigation.

Colorado

The State of Colorado created the Division of Gaming (the "Colorado Division") within the Department of Revenue to license, implement, regulate and supervise the conduct of limited gaming under the Colorado Limited Gaming Act. The Director of the Colorado Division (the "Colorado Director"), pursuant to regulations promulgated by, and subject to the review of, a five-member Colorado Limited Gaming Control Commission (the "Colorado Commission"), has been granted broad power to ensure compliance with the Colorado gaming laws and regulations (collectively, the "Colorado Regulations"). The Colorado Director may inspect without notice, impound or remove any gaming device. The Colorado Director may examine and copy any licensee's records, may investigate the background and conduct of licensees and their employees, and may bring disciplinary actions against licensees and their employees. The Colorado Director may also conduct detailed background investigations of persons who loan money to, or otherwise provide financing to, a licensee.

The Colorado Commission is empowered to issue five types of gaming and gaming-related licenses, and has delegated authority to the Colorado Director to issue certain types of licenses and approve certain changes in ownership. The licenses are revocable and non-transferable. The failure or inability of the Isle of Capri Black Hawk, LLC ("Isle-Black Hawk") or CCSC/Blackhawk, Inc. ("Colorado Central Station-Black Hawk") (each, a "Colorado Casino" or collectively, the "Colorado Casinos"), or the failure or inability of others associated with any of the Colorado Casinos, including us, to maintain necessary gaming licenses or approvals would have a material adverse effect on our operations. All persons employed by any of the Colorado Casinos, and involved, directly or indirectly, in gaming operations in Colorado also are required to obtain a Colorado gaming license. All licenses must be renewed annually, except those for key and support employees, which must be renewed every two years.

As a general rule, under the Colorado Regulations, no person may have an "ownership interest" in more than three retail gaming licenses in Colorado. The Colorado Commission has ruled that a person does not have an ownership interest in a retail gaming licensee for purposes of the multiple license prohibition if:

- that person has less than a 5% ownership interest in an institutional investor that has an ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;
- a person has a 5% or more ownership interest in an institutional investor, but the institutional investor has less than a 5% ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;

- an institutional investor has less than a 5% ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;
- an institutional investor possesses voting securities in a fiduciary capacity for another person, and does not exercise voting control over 5% or more of the outstanding voting securities of a publicly traded licensee or of a publicly traded company affiliated with a licensee;
- a registered broker or dealer retains possession of voting securities of a publicly traded licensee or of a publicly traded company affiliated with a licensee for its customers and not for its own account, and exercises voting rights for less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee;
- a registered broker or dealer acts as a market maker for the stock of a publicly traded licensee or of a publicly traded company affiliated with a licensee and exercises voting rights in less than 5% of the outstanding voting securities of the publicly traded licensee or publicly traded company affiliated with a licensee;
- an underwriter is holding securities of a publicly traded licensee or publicly traded company affiliated with a licensee as part of an underwriting for no more than 90 days after the beginning of such underwriting if it exercises voting rights of less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee;
- a book entry transfer facility holds voting securities for third parties, if it exercises voting rights with respect to less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee; or
- a person's sole ownership interest is less than 5% of the outstanding voting securities of the publicly traded licensee or publicly traded company affiliated with a licensee.

Because we own the Colorado Casinos, our business opportunities, and those of persons with an "ownership interest" in us, or any of the Colorado Casinos, are limited to interests that comply with the Colorado Regulations and the Colorado Commission's rule.

In addition, pursuant to the Colorado Regulations, no manufacturer or distributor of slot machines or associated equipment may, without notification being provided to the Colorado Division within ten days, knowingly have an interest in any casino operator, allow any of its officers or any other person with a substantial interest in such business to have such an interest, employ any person if that person is employed by a casino operator, or allow any casino operator or person with a substantial interest therein to have an interest in a manufacturer's or distributor's business. A "substantial interest" means the lesser of (i) as large an interest in an entity as any other person or (ii) any financial or equity interest equal to or greater than 5%. The Colorado Commission has ruled that a person does not have a "substantial interest" if such person's sole ownership interest in such licensee is through the ownership of less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded affiliated company of a licensee.

We are a “publicly traded corporation” under the Colorado Regulations.

Under the Colorado Regulations, any person or entity having any direct or indirect interest in a gaming licensee or an applicant for a gaming license, including, but not limited to, us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos and their security holders, may be required to supply the Colorado Commission with substantial information, including, but not limited to, background information, source of funding information, a sworn statement that such person or entity is not holding his or her interest for any other party, and fingerprints. Such information, investigation and licensing (or finding of suitability) as an “associated person” automatically will be required of all persons (other than certain institutional investors discussed below) which directly or indirectly beneficially own 10% or more of a direct or indirect beneficial ownership or interest in either of the two Colorado Casinos, through their beneficial ownership of any class of voting securities of us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos. Those persons must report their interest within 10 days (including institutional investors) and file appropriate applications within 45 days after acquiring that interest (other than certain institutional investors discussed below). Persons (including institutional investors) who directly or indirectly beneficially own 5% or more (but less than 10%) of a direct or indirect beneficial ownership or interest in either of the two Colorado Casinos, through their beneficial ownership of any class of voting securities of us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos, must report their interest to the Colorado Commission within 10 days after acquiring that interest and may be required to provide additional information and to be found suitable. (It is the current practice of the gaming regulators to require findings of suitability for persons beneficially owning 5% or more of a direct or indirect beneficial ownership or interest, other than certain institutional investors discussed below.) If certain institutional investors provide specified information to the Colorado Commission within 45 days after acquiring their interest (which, under the current practice of the gaming regulators is an interest of 5% or more, directly or indirectly) and are holding for investment purposes only, those investors, in the Colorado Commission’s discretion, may be permitted to own up to 14.99% of the Colorado Casinos through their beneficial ownership in any class of voting of securities of us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos, before being required to be found suitable. All licensing and investigation fees will have to be paid by the person in question. The associated person investigation fee currently is \$59 per hour.

The Colorado Regulations define a “voting security” to be a security the holder of which is entitled to vote generally for the election of a member or members of the board of directors or board of trustees of a corporation or a comparable person or persons of another form of business organization.

The Colorado Commission also has the right to request information from any person directly or indirectly interested in, or employed by, a licensee, and to investigate the moral character, honesty, integrity, prior activities, criminal record, reputation, habits and associations of: (1) all persons licensed pursuant to the Colorado Limited Gaming Act; (2) all officers, directors and stockholders of a licensed privately held corporation; (3) all officers, directors and stockholders holding either a 5% or greater interest or a controlling interest in a licensed publicly traded corporation; (4) all general partners and all limited partners of a licensed partnership; (5) all persons that have a relationship similar to that of an officer, director or stockholder of a corporation (such as members and managers of a limited liability company); (6) all persons supplying financing or loaning money to any licensee connected with the establishment or operation of limited gaming; (7) all persons having a contract, lease or ongoing financial or business arrangement with any licensee, where such contract, lease or arrangement relates

to limited gaming operations, equipment devices or premises; and (8) all persons contracting with or supplying any goods and services to the gaming regulators.

Certain public officials and employees are prohibited from having any direct or indirect interest in a license or limited gaming.

In addition, under the Colorado Regulations, every person who is a party to a “gaming contract” (as defined below) or lease with an applicant for a license, or with a licensee, upon the request of the Colorado Commission or the Colorado Director, must promptly provide the Colorado Commission or Colorado Director all information that may be requested concerning financial history, financial holdings, real and personal property ownership, interests in other companies, criminal history, personal history and associations, character, reputation in the community and all other information that might be relevant to a determination of whether a person would be suitable to be licensed by the Colorado Commission. Failure to provide all information requested constitutes sufficient grounds for the Colorado Director or the Colorado Commission to require a licensee or applicant to terminate its “gaming contract” or lease with any person who failed to provide the information requested. In addition, the Colorado Director or the Colorado Commission may require changes in “gaming contracts” before an application is approved or participation in the contract is allowed. A “gaming contract” is defined as an agreement in which a person does business with or on the premises of a licensed entity.

The Colorado Commission and the Colorado Division have interpreted the Colorado Regulations to permit the Colorado Commission to investigate and find suitable persons or entities providing financing to or acquiring securities from us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos. As noted above, any person or entity required to file information, be licensed or found suitable would be required to pay the costs thereof and of any investigation. Although the Colorado Regulations do not require the prior approval for the execution of credit facilities or issuance of debt securities, the Colorado regulators reserve the right to approve, require changes to or require the termination of any financing, including if a person or entity is required to be found suitable and is not found suitable. In any event, lenders, note holders, and others providing financing will not be able to exercise certain rights and remedies without the prior approval of the Colorado gaming authorities. Information regarding lenders and holders of securities will be periodically reported to the Colorado gaming authorities.

Except under certain limited circumstances relating to slot machine manufacturers and distributors, every person supplying goods, equipment, devices or services to any licensee in return for payment of a percentage, or calculated upon a percentage, of limited gaming activity or income must obtain an operator license or be listed on the retailer’s license where such gaming will take place.

An application for licensure or suitability may be denied for any cause deemed reasonable by the Colorado Commission or the Colorado Director, as appropriate. Specifically, the Colorado Commission and the Colorado Director must deny a license to any applicant who, among other things: (1) fails to prove by clear and convincing evidence that the applicant is qualified; (2) fails to provide information and documentation requested; (3) fails to reveal any fact material to qualification, or supplies information which is untrue or misleading as to a material fact pertaining to qualification; (4) has been convicted of, or has a director, officer, general partner, stockholder, limited partner or other person who has a financial or equity interest in the applicant who has been convicted of, specified crimes, including the service of a sentence upon conviction of a felony in a correctional facility, city or county jail, or community correctional facility or under the state board of parole or any probation department within ten years prior to the date of the application, gambling-related offenses, theft by deception or crimes involving fraud or misrepresentation, is under current prosecution for such crimes (during the

pendency of which license determination may be deferred), is a career offender or a member or associate of a career offender cartel, or is a professional gambler; or (5) has refused to cooperate with any state or federal body investigating organized crime, official corruption or gaming offenses. If the Colorado Commission determines that a person or entity is unsuitable to directly or indirectly own interests in us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., or either of the two Colorado Casinos, one or more of the Colorado Casinos may be sanctioned, which may include the loss of our approvals and licenses.

The Colorado Commission does not need to approve in advance a public offering of securities but rather requires the filing of notice and additional documents prior to a public offering of (i) voting securities, and (ii) non-voting securities if any of the proceeds will be used to pay for the construction of gaming facilities in Colorado, to directly or indirectly acquire an interest in a gaming facility in Colorado, to finance the operation of a gaming facility in Colorado or to retire or extend obligations for any of the foregoing. The Colorado Commission may, in its discretion, require additional information and prior approval of such public offering.

In addition, the Colorado Regulations prohibit a licensee or affiliated company thereof, such as us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos, from paying any unsuitable person any dividends or interest upon any voting securities or any payments or distributions of any kind (except as set forth below), or paying any unsuitable person any remuneration for services or recognizing the exercise of any voting rights by any unsuitable person. Further, under the Colorado Regulations, each of the Colorado Casinos and IOC Black Hawk Distribution Company, LLC may repurchase its voting securities from anyone found unsuitable at the lesser of the cash equivalent to the original investment in the applicable Colorado Casino or IOC Black Hawk Distribution Company, LLC or the current market price as of the date of the finding of unsuitability unless such voting securities are transferred to a suitable person (as determined by the Colorado Commission) within sixty (60) days after the finding of unsuitability. A licensee or affiliated company must pursue all lawful efforts to require an unsuitable person to relinquish all voting securities, including purchasing such voting securities. The staff of Colorado Division has taken the position that a licensee or affiliated company may not pay any unsuitable person any interest, dividends or other payments with respect to non-voting securities, other than with respect to pursuing all lawful efforts to require an unsuitable person to relinquish non-voting securities, including by purchasing or redeeming such securities. Further, the regulations require anyone with a material involvement with a licensee, including a director or officer of a holding company, such as us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or either of the two Colorado Casinos, to file for a finding of suitability if required by the Colorado Commission.

Because of their authority to deny an application for a license or suitability, the Colorado Commission and the Colorado Director effectively can disapprove a change in corporate position of a licensee and with respect to any entity which is required to be found suitable, or indirectly can cause us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., IOC Black Hawk Distribution Company, LLC or the applicable Colorado Casino to suspend or dismiss managers, officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or who the authorities find unsuitable to act in such capacities.

Generally, a sale, lease, purchase, conveyance or acquisition of any interest in a licensee is prohibited without the Colorado Commission's prior approval. However, because we are a publicly traded corporation, persons may acquire an interest in us (even, under current staff interpretations, a controlling interest) without the Colorado Commission's prior approval, but such persons may be required to file notices with the Colorado Commission and applications for suitability (as discussed

above) and the Colorado Commission may, after such acquisition, find such person unsuitable and require them to dispose of their interest. Under some circumstances, we may not sell any interest in our Colorado gaming businesses without the prior approval of the Colorado Commission.

Each Colorado Casino must meet specified architectural requirements, fire safety standards and standards for access for disabled persons. Each Colorado Casino also must not exceed specified gaming square footage limits as a total of each floor and the full building. Each Colorado Casino may operate only between 8:00 a.m. and 2:00 a.m., and may permit only individuals 21 or older to gamble in the casino. It may permit slot machines, blackjack and poker, with a maximum single bet of \$5.00. No Colorado Casino may provide credit to its gaming patrons.

A licensee is required to provide information and file periodic reports with the Colorado Division, including identifying those who have a 5% or greater ownership, financial or equity interest in the licensee, or who have the ability to control the licensee, or who have the ability to exercise significant influence over the licensee, or who loan money or other things of value to a licensee, or who have the right to share in revenues of limited gaming, or to whom any interest or share in profits of limited gaming has been pledged as security for a debt or performance of an act. A licensee, and any parent company or subsidiary of a licensee, who has applied to a foreign jurisdiction for licensure or permission to conduct gaming, or who possesses a license to conduct foreign gaming, is required to notify the Colorado Division. Any person licensed by the Colorado Commission and any associated person of a licensee must report criminal convictions and criminal charges to the Colorado Division.

The Colorado Commission has broad authority to sanction, fine, suspend and revoke a license for violations of the Colorado Regulations. Violations of many provisions of the Colorado Regulations also can result in criminal penalties.

The Colorado Constitution currently permits gaming only in a limited number of cities and certain commercial districts in such cities.

The Colorado Constitution permits a gaming tax of up to 40% on adjusted gross gaming proceeds, and authorizes the Colorado Commission to change the rate annually. The current gaming tax rate is 0.25% on adjusted gross gaming proceeds of up to and including \$2.0 million, 2% over \$2.0 million up to and including \$4.0 million, 4% over \$4.0 million up to and including \$5.0 million, 11% over \$5.0 million up to and including \$10.0 million, 16% over \$10.0 million up to and including \$15.0 million and 20% on adjusted gross gaming proceeds in excess of \$15.0 million. The City of Black Hawk has imposed an annual device fee of \$750 per gaming device and may revise it from time to time. The City of Black Hawk also has imposed other fees, including a business improvement district fee and transportation fee, calculated based on the number of devices and may revise the same or impose additional such fees.

Colorado participates in multi-state lotteries.

The sale of alcoholic beverages is subject to licensing, control and regulation by the Colorado liquor agencies. All persons who directly or indirectly hold a 10% or more interest in, or 10% or more of the issued and outstanding capital stock of, any of the Colorado Casinos, through their ownership of us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., or either of the two Colorado Casinos, must file applications and possibly be investigated by the Colorado liquor agencies. The Colorado liquor agencies also may investigate those persons who, directly or indirectly, loan money to or have any financial interest in liquor licensees. In addition, there are restrictions on stockholders, directors and officers of liquor licensees preventing such persons from being a stockholder, director, officer or otherwise interested in some persons lending money to liquor licensees and from making

loans to other liquor licensees. All licenses are revocable and transferable only in accordance with all applicable laws. The Colorado liquor agencies have the full power to limit, condition, suspend or revoke any liquor license and any disciplinary action could (and revocation would) have a material adverse effect upon the operations of us, Casino America of Colorado, Inc., IC Holdings Colorado, Inc., or the applicable Colorado Casino. Each Colorado Casino holds a retail gaming tavern liquor license for its casino, hotel and restaurant operations.

Persons directly or indirectly interested in either of the two Colorado Casinos may be limited in certain other types of liquor licenses in which they may have an interest, and specifically cannot have an interest in a retail liquor license (but may have an interest in a hotel and restaurant liquor license and several other types of liquor licenses). No person can hold more than three retail gaming tavern liquor licenses. The remedies of certain lenders may be limited by applicable liquor laws and regulations.

Florida

On June 15, 1995, the Florida Department of Business and Professional Regulation, acting through its division of pari-mutuel wagering (the "Florida Division"), issued its final order approving Pompano Park as a pari-mutuel wagering permit holder for harness and quarter horse racing at Pompano Park. The Florida Division approved Pompano Park's license to conduct a total of 160 live evening performances for the season beginning July 1, 2005 to June 30, 2006. Although we do not presently intend to conduct quarter horse racing operations at Pompano Park, we may do so in the future, subject to Florida Division approval. The Florida Division must approve any transfer of 10% or more of stock of a pari-mutuel racing permit holder such as Pompano Park.

The Florida Statute and the applicable rules and regulations thereunder (the "Florida Statute") establish license fees, the tax structure on pari-mutuel permit holders and minimum purse requirements for breeders and owners. The Florida Division may revoke or suspend any permit or license upon the willful violation by the permit holder or licensee of any provision of the Florida Statute. Instead of suspending or revoking a permit or license, the Florida Division may impose various civil penalties on the permit holder or licensee. Penalties may not exceed \$1,000 for each count or separate offense.

Pursuant to a Florida Division order and enactments to the Florida Statute, Pompano Park is also authorized to conduct full-card pari-mutuel wagering on: (1) simulcast harness races from outside Florida throughout the racing season and (2) night thoroughbred races within Florida if the thoroughbred permit holder has decided to simulcast night races. Pompano Park has been granted the exclusive right in Florida to conduct full-card simulcasting of harness racing on days during which no live racing is held at Pompano Park. However, on non-race days, Pompano Park must offer to rebroadcast its simulcast signals to pari-mutuel facilities that are not thoroughbred parks in Pompano Park's market area. In addition, Pompano Park may transmit its live races into any dog racing or jai alai facility in Florida, including Dade and Broward counties, for intertrack wagering. The Florida Statute establishes the percentage split between Pompano Park and the other facilities receiving such signals. Legislation in Florida provided certain reductions in applicable tax and license fees related to intertrack wagering on broadcasts of simulcast harness racing and thoroughbred racing. We believe that simulcast rights at Pompano Park and the changes in the Florida Statute are important to Pompano Park's operating results.

The Florida Statute permits pari-mutuel facilities licensed by the Florida Division to operate card rooms in those counties in which a majority vote of the County Commission has been obtained and a local ordinance has been adopted. Pompano Park reopened its card room in fiscal year 2004 after State Legislation was amended authorizing card game pot limits to be eliminated and bets limits of \$2 per bet were imposed.

In November 2004, voters in the State of Florida amended the state's constitution to allow the voters of Miami-Dade and Broward counties (Broward County is the location of the Pompano Park Racetrack) to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. Broward County voters passed their local referendum and Miami-Dade county voters rejected their referendum in March 2005. An appeal challenging the validity of signatures needed to place the amendment on the ballot is pending following the granting of summary judgment against the plaintiffs in a lower court dismissing the challenge. Oral arguments were held in November 2005 but no decision has been issued as of the date of this filing. On January 4, 2006, a Florida Statute became effective allowing Pompano Park and three other pari-mutuel facilities in Broward County to offer slot machine gaming to patrons at these facilities. Although there are pari-mutuel facilities in numerous other counties in the State of Florida, slot machine gaming is only authorized in Broward County where Pompano Park is located. We are constructing a slot machine and entertainment area at Pompano Park adjacent to the existing grandstand at a cost of \$140.5 million with slot machine gaming anticipated to commence in early 2007. We do not plan to open a temporary facility. The statute authorizes Pompano Park to install and operate up to 1500 slot machines at its facility 365 days per year, 16 hours per day and requires Pompano Park to pay an annual license fee of \$3 million dollars and gaming taxes equal to 50% of Pompano Park's net slot machine revenue plus combined county and city taxes of approximately an additional 3.5% on the first \$250 million of net slot machine revenue and 5% on net slot machine revenue over \$250 million. The Florida Division administering the law is now implementing rules and regulations for the operation of the slot machines.

Bahamas

In 1969, the Government of The Bahamas enacted the Lotteries and Gaming Act. This legislation, together with its regulations, governs and regulates gaming. The Gaming Board is the body that regulates the operation of casinos. The gaming license is renewable annually. All casino workers must be approved by the Board and are issued certificates, which are also renewable on an annual basis. There is a basic annual gaming tax of \$200,000 payable in six equal shares. In addition a winnings tax is also imposed and is based on the following scale:

Winnings of \$10,000,000	25%
\$10,000,001 -	
\$16,000,000	20%
\$16,000,001 -	
\$20,000,000	10%
amounts	
exceeding	
\$20,000,001	5%

The Minister of Tourism has responsibility for gaming and acts in consultation with the Gaming Board. A license can be cancelled if a fraudulent or misleading representation has been supplied to the Board or if there is a breach of restrictions or conditions imposed by the Minister. There is however a right to be heard before cancellation is made final. Citizens, permanent residents and holders of work permits are prohibited from gambling. Those found doing so are guilty of an offense punishable by law. The operator may also be liable if it knowingly allows any such persons to gamble in its establishment.

Currently the Casino has an agreement to lease the premises housing its operations and a management agreement. The Casino holds a number of other licenses including one with the Port Authority of Grand Bahama, a business license and liquor and dining and dancing licenses.

Effective June 1, 2006, we notified our landlord of our decision to terminate the lease and we intend to cease operations by June 1, 2007 as required by our lease. In conjunction with exercising the lease termination, we paid a \$2.2 million fee to the landlord. Based on our lease terms, projected cash flows and government regulations, we have taken a impairment charge of approximately \$2.4 million and have accrued \$1.2 million for severance payments.

United Kingdom

Gaming and gaming facilities in the UK are currently subject to regulation under the Gaming Act of 1968 (the "Gaming Act"). Under the Gaming Act, the Gaming Board for Great Britain (the "Gaming Board") (now The Gambling Commission - per Gambling Act 2005) was charged with ensuring compliance with the Gaming Act and the regulations promulgated under the Gaming Act. Pursuant to its regulatory authority, the Gaming Board issued detailed guidelines that govern licensing procedures as well as the management, operation and supervision of gaming facilities. (See further regarding new Gambling Act 2005).

The Gaming Act specifies that only individuals that have been a resident of Great Britain for at least six months or a company incorporated in Great Britain can apply for a license to operate, or operate, a casino in Great Britain. The Gaming Act does not prohibit foreign ownership in casinos operated by a resident of Great Britain. Casinos can be located only in certain designated areas known as "permitted areas," of which there currently are fifty-three; there are approximately 142 gaming facilities currently are operating in these permitted areas.

A casino operator must obtain a Certificate of Consent from the Gaming Board prior to submitting an application for a gaming license. Before it grants a Certificate of Consent, the Gaming Board must be satisfied that the applicant is "fit and proper" to operate a gaming facility. To be deemed fit and proper, the applicant must convince the Gaming Board of its ability to diligently comply with the Gaming Act and the regulations promulgated thereunder. The applicant also must convince the Board that gaming in the proposed gaming facility would be conducted fairly and properly and without disorder or disturbance. The Board also evaluates the character, reputation and financial standing of both the applicant and any entity that would operate or hold a significant ownership interest in the gaming facility.

The Certificate of Consent, if granted, permits the recipient to apply for a gaming license for a specific location. Additional Certificates of Consent are required for additional locations. The Certificate of Consent requires that any gaming license application be submitted within one year and may restrict the type of gaming for which the applicant may seek a license.

The applicant must submit an application to a Justice of the local Magistrates Court (the "Licensing Justice"), seeking a license to provide commercial gaming in the location specified by the Certificate of Consent. The license application must include the name and description of the facility to be used for gaming. A copy of the application also must be filed with the Gaming Board, a designated officer of the police, the relevant local authority, the relevant fire authority and the relevant collector of duty. Within 14 days of submitting the license application, the applicant must publish a notice in the local newspaper stating that such application has been made. The applicant also must post notice outside the facility for which the gaming license has been requested. A copy of the newspaper notice must be sent to the licensing authority before the application will be considered.

Gaming Board regulations provide guidelines under which the Licensing Justices review license applications. Under current regulations, before granting a license, the Justice must determine that there exists “substantial demand for gaming facilities of the kind proposed to be provided on the relevant premises.” The Justice also must be satisfied that current gaming facilities are either not available in an area that is reasonably accessible to prospective players or, where such facilities are available, the current gaming facilities are insufficient to meet current demand. The Justice also must evaluate the suitability of the proposed gaming facility, including the lay-out of the facility and the character, condition and location of the facility, and whether the applicant is fit and proper to be a holder of the license under the Gaming Act.

The Gaming Board regulations also establish detailed guidelines governing the operation, management and supervision of gaming facilities. Under the Gaming Board guidelines, an inspector must supervise the croupiers who are normally in charge of two gaming tables, under the direction of a pit boss. The role of the inspector is to verify large payouts, ensure compliance with gaming regulations, confirm verbal bets and resolve player disputes. Gaming Board guidelines also require that management and inspectors have a clear view of the tables and all players at all times. Gaming facilities also must be designed to permit adequate supervision by the police and the Gaming Board’s inspectors.

The transfer of 15% or more of the voting power of a casino triggers an obligation on the part of the holder of the existing Certificate of Consent to apply to the Gaming Board for a continuance of its Certificate of Consent. The Gaming Board will evaluate whether the transferee is fit and proper to hold a gaming license and meets the tests discussed above.

The government of the UK recently enacted new legislation to update gaming in a socially responsive manner in light of developments in the industry and new technology. The Gambling Act was passed by the UK Parliament on April 8, 2005 and will be implemented in stages. Under the new legislation, a new Gambling Commission has been created to oversee license applications and establish new regulations for gaming (including on-line gaming) in the UK. It has taken over responsibilities from the Gaming Board and is working on the transition to meet this objective. The legislation will provide a significant change in regulation of the casino industry including:

- removing the requirement that gaming facilities operate as private members’ clubs, including the statutorily prescribed 24-hour interval between membership and play; this has now occurred;
 - extending the gaming products available;
 - abolishing the demand test and permitted area rules;
- allowing large casinos specific numbers of gaming machines with a broader range of stakes and prizes;
 - allowing casinos to offer live entertainment and to advertise; and
 - allowing a new category of regional casinos.

In order to pass the legislation, having regard to the UK General Election on May 5, 2005, the Government agreed to limit the number of Regional Casinos to one, on a pilot basis. A list was recently released of cities being considered to receive the regional gaming license and Coventry was not included on the list. An increase in the number of regional casinos can be approved by a Ministerial Order using the affirmative resolution procedure, which will require that the order is affirmed by a vote of both Houses of Parliament.

We have obtained a gaming license to open a casino at RICOH™ Arena in Coventry, England under the 1968 Gambling Act and are currently constructing this facility. Additionally, we are exploring our options with respect to overall development plans for this property, including a possible entertainment facility.

Non-Gaming Regulation

We are subject to certain federal, state and local safety and health, employment and environmental laws, regulations and ordinances that apply to non-gaming businesses generally, such as the Clean Air Act, Clean Water Act, Occupational Safety and Health Act, Resource Conservation Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and the Oil Pollution Act of 1990. We have not made, and do not anticipate making, material expenditures with respect to such environmental laws and regulations. However, the coverage and attendant compliance costs associated with such laws, regulations and ordinances may result in future additional costs to our operations. For example, the Department of Transportation has promulgated regulations under the Oil Pollution Act of 1990 requiring owners and operators of certain vessels to establish through the Coast Guard evidence of financial responsibility for clean up of oil pollution. This requirement has been satisfied by proof of adequate insurance.

Our riverboats operated in Louisiana and Iowa must comply with U.S. Coast Guard requirements as to boat design, on-board facilities, equipment, personnel and safety and hold U.S. Coast Guard Certificates of Documentation and Inspection. The U.S. Coast Guard requirements also set limits on the operation of the riverboats and require licensing of certain personnel involved with the operation of the riverboats. Loss of a riverboat's Certificate of Documentation and Inspection could preclude its use as a riverboat casino. Each of our riverboats is inspected annually and, every five years, is subject to dry-docking for inspection of its hull, which could result in a temporary loss of service.

The barges are inspected by third parties and certified with respect to stability and single compartment flooding integrity. Our casino barges must also meet local fire safety standards. We would incur additional costs if any of our gaming facilities were not in compliance with one or more of these regulations.

Regulations adopted by the Financial Crimes Enforcement Network of the U.S. Treasury Department require us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the patron by name and social security number. U.S. Treasury Department regulations also require us to report certain suspicious activity, including any transaction that exceeds \$5,000 if we know, suspect or have reason to believe that the transaction involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Substantial penalties can be imposed against us if we fail to comply with these regulations.

All of our shipboard employees, even those who have nothing to do with our operation as a vessel, such as dealers, waiters and security personnel, may be subject to the Jones Act which, among other things, exempts those employees from state limits on workers' compensation awards.

ITEM 1A. RISK FACTORS.

Risk Factors

We face significant competition from other gaming operations that could have a material adverse effect on our future operations.

We face intense competition in the markets in which we operate. We have numerous competitors, including land-based casinos, dockside casinos, riverboat casinos, casinos located on Native American-owned lands and at racing and pari-mutuel operations. Several of our competitors have substantially better name recognition, marketing and financial resources than we do. Legalized gaming is currently permitted in various forms throughout the United States. Certain states have recently legalized, and other states are currently considering legalizing, casino gaming in designated areas. There is no limit on the number of gaming licenses that may be granted in several of the markets in which we operate. As a result, new licenses could be awarded to gaming facilities in such markets, which could have an adverse effect on our operating results. Expansion of existing gaming facilities and the development of new gaming facilities in our current markets will increase competition for our existing and future operations. In addition, many Native American tribes conduct casino gaming on Native American-owned lands throughout the United States. Such facilities have the advantages of being land-based and exempt from certain state and federal taxes and operational restrictions imposed by state gaming authorities. Some Native American tribes are either in the process of establishing or expanding, or are considering the establishment or expansion of, gaming in Oklahoma, Texas, Louisiana, Florida, Alabama, Kansas, Colorado, Mississippi and Iowa. The establishment or expansion of new gaming facilities and casinos on Native American-owned lands will increase competition for our existing and future gaming facilities in proximity to Native American owned lands.

We also compete with other forms of legalized gaming and entertainment such as online computer gambling, bingo, pull tab games, card parlors, sports books, “cruise-to-nowhere” operations, pari-mutuel or telephonic betting on horse racing and dog racing, state-sponsored lotteries, jai-alai, video lottery terminals and video poker terminals and, in the future, may compete with gaming at other venues.

Our existing gaming facilities compete directly with other gaming properties in Louisiana, Mississippi, Missouri, Iowa and Colorado. We also compete with gaming operators in other gaming jurisdictions such as Atlantic City, New Jersey and Las Vegas, Nevada. Our existing casinos attract a significant number of their customers from Houston, Texas; Mobile, Alabama; Jackson, Mississippi; Memphis, Tennessee; Little Rock, Arkansas and Denver, Colorado. Our continued success depends upon drawing customers from each of these geographic markets. Legalization of gaming in jurisdictions closer to these geographic markets than the jurisdictions in which our facilities are located would have a material adverse effect on our operating results. We expect competition to increase as new gaming operators enter our markets, existing competitors expand their operations, gaming activities expand in existing jurisdictions and gaming is legalized in new jurisdictions. We cannot predict with any certainty the effects of existing and future competition on our operating results.

We are subject to extensive regulation from gaming authorities that could adversely affect us.

As owners and operators of gaming facilities, we are subject to extensive state and local regulation. State and local authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. The regulatory authorities in the jurisdictions in which we operate may limit, condition, suspend or revoke a license to conduct gaming operations or prevent us from owning the securities of

any of our gaming subsidiaries. We may also be deemed responsible for the acts and conduct of our employees. Substantial fines or forfeiture of assets for violations of gaming laws or regulations may be levied against us, our subsidiaries and the persons involved. The suspension or revocation of any of our licenses or the levy on us or our subsidiaries of a substantial fine would have a material adverse effect on our business.

To date, we have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming facilities. However, like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses. We cannot assure you that we will be able to obtain such renewals.

In addition, regulatory authorities in certain jurisdictions must approve, in advance, any restrictions on transfers of, agreements not to encumber or pledges of equity securities issued by a corporation that is registered as an intermediary company with such state, or that holds a gaming license. If these restrictions are not approved in advance, they will be invalid.

On January 4, 2006, a Florida statute became effective allowing Pompano Park and three other pari-mutuel facilities in Broward County to offer slot machine gaming to patrons at these facilities. The Florida Department of Business and Professional Regulation is administering the law and is now implementing rules and regulations for the operation of the slot machines. We cannot assure you how restrictive the aforementioned rules will be drafted or that we will receive all necessary approvals to commence slot operations.

From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. In addition, from time to time, certain anti-gaming groups have attacked constitutional amendments or legislation that would limit our ability to continue to operate in those jurisdictions in which these constitutional amendments or legislation have been adopted. For example, in November 2004, voters in the State of Florida amended the state's constitution to allow the voters of Miami-Dade and Broward counties (Broward County is the location of the Pompano Park Racetrack) to decide whether to approve slot machines in racetracks and jai alai frontons in their respective counties. Broward County voters passed their local referendum and Miami-Dade County voters rejected their referendum in March 2005. An appeal challenging the validity of signatures needed to place the Florida constitutional amendment on the ballot is pending following the granting of summary judgment against the plaintiffs in a lower court dismissing the challenge. Oral arguments were held in November 2005, but no decision has been issued as of the date of this filing. If the constitutional amendment were ultimately found to be invalid, our right to operate slot machines at Pompano Park would be eliminated. We cannot assure you as to the outcome of this litigation. Any expansion of gaming or restriction on or prohibition of our gaming operations could have a material adverse effect on our operating results.

We are subject to the possibility of an increase in gaming taxes, which would increase our costs.

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, poor economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. Some of the states in which we own or operate casinos

continue to experience budget shortfalls and, as a result, may increase gaming taxes to raise more revenue. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to non-gaming regulation that could adversely affect us.

Several of our riverboats must comply with U.S. Coast Guard requirements as to boat design, on-board facilities, equipment, personnel and safety and must hold U.S. Coast Guard Certificates of Documentation and Inspection. The U.S. Coast Guard requirements also set limits on the operation of the riverboats and mandate licensing of certain personnel involved with the operation of the riverboats. Loss of a riverboat's Certificate of Documentation and Inspection could preclude its use as a riverboat casino. Each of our riverboats is inspected annually and, every five years, is subject to dry-docking for inspection of its hull, which could result in a temporary loss of service.

We are required to have third parties periodically inspect and certify all of our casino barges for stability and single compartment flooding integrity. Our casino barges must also meet local fire safety standards. We would incur additional costs if any of our gaming facilities were not in compliance with one or more of these regulations.

We are also subject to certain federal, state and local environmental laws, regulations and ordinances that apply to non-gaming businesses generally, such as the Clean Air Act, the Clean Water Act, the Resource Conservation Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and the Oil Pollution Act of 1990. Under various federal, state and local laws and regulations, an owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances or wastes located on its property, regardless of whether or not the present owner or operator knows of, or is responsible for, the presence of such substances or wastes. We have not identified any issues associated with our properties that could reasonably be expected to have an adverse effect on us or the results of our operations. However, several of our properties are located in industrial areas or were used for industrial purposes for many years. As a consequence, it is possible that historical or neighboring activities have affected one or more of our properties and that, as a result, environmental issues could arise in the future, the precise nature of which we cannot now predict. The coverage and attendant compliance costs associated with these laws, regulations and ordinances may result in future additional costs.

Regulations adopted by the Financial Crimes Enforcement Network of the U.S. Treasury Department require us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the patron by name and social security number. U.S. Treasury Department regulations also require us to report certain suspicious activity, including any transaction that exceeds \$5,000 if we know, suspect or have reason to believe that the transaction involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Substantial penalties can be imposed against us if we fail to comply with these regulations.

We are also subject to a variety of other local rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. Penalties can be imposed against us if we fail to comply with these regulations. The imposition of a substantial penalty or the loss of service of a gaming facility for a significant period of time would have a material adverse affect on our business.

Our substantial indebtedness could adversely affect our financial health and restrict our operations.

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We have a significant amount of indebtedness. As of April 30, 2006, we had \$1.2 billion of total debt outstanding.

Our significant indebtedness could have important consequences, such as:

- limiting our ability to obtain additional financing to fund our working capital requirements, capital expenditures, debt service, general corporate or other obligations;
- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a significant portion of these funds to make principal and interest payments on our indebtedness;
- increasing our interest expense if there is a rise in interest rates, because a portion of our borrowings under our senior secured credit facility are subject to interest rate periods with short-term durations (typically 30 to 180 days) that require ongoing refunding at the then current rates of interest;
- causing our failure to comply with the financial and restrictive covenants contained in the indenture and agreements governing the 7% senior subordinated notes due 2014, the 9% senior subordinated notes due 2012, our senior secured credit facility and our other indebtedness, which could cause a default under those instruments and which, if not cured or waived, could have a material adverse effect on us;
 - placing us at a competitive disadvantage to our competitors who are not as highly leveraged; and
- increasing our vulnerability to and limiting our ability to react to changing market conditions, changes in our industry and economic downturns.

Any of the factors listed above could have a material adverse effect on our business, financial condition and results of operations. In addition, as of April 30, 2006, we had the capacity to issue additional indebtedness, including the ability to incur additional indebtedness under all of our lines of credit, of approximately \$433.4 million, of which, approximately \$72.2 million of these lines of credit were used to support letters of credit. Our capacity to issue additional indebtedness is subject to the limitations imposed by the covenants in our senior secured credit facility and the indentures governing our notes. The indenture governing our notes and our senior secured credit facility contain financial and other restrictive covenants, but will not fully prohibit us from incurring additional debt. If new debt is added to our current level of indebtedness, related risks that we now face could increase.

We have made and will need to make significant capital expenditures at our existing facilities to remain competitive with current and future competitors in our markets. Our senior secured credit facility and the indentures governing our notes contain operating and financial restrictions that may limit our ability to obtain the financing to make these capital expenditures.

Our agreements governing our indebtedness, among other things, limit our ability to:

- borrow money;
- make capital expenditures;
- use assets as security in other transactions;
- make restricted payments or restricted investments;
 - incur contingent obligations; and
- sell assets and enter into leases and transactions with affiliates.

We may not be able to successfully expand to new locations or recover our investment in new locations which would adversely affect our operations and available resources.

We regularly evaluate and pursue new gaming acquisition and development opportunities in existing and new gaming markets including Waterloo, Iowa; Pompano Beach, Florida; Coventry, England; west Harrison County, Mississippi; Pittsburgh, Pennsylvania; Singapore and Rosemont, Illinois. To the extent that we elect to pursue any new gaming acquisition or development opportunity, our ability to benefit from our investment will depend on many factors, including:

- our ability to successfully identify attractive acquisition and development opportunities;
- our ability to successfully operate any developed or acquired properties;
- our ability to attract and retain competent management and employees for the new locations;
- our ability to secure required federal, state and local licenses, permits and approvals, which in some jurisdictions are limited in number and subject to intense competition;
- the availability of adequate financing on acceptable terms.

Many of these factors are beyond our control. Therefore, we cannot be sure that we will be able to recover our investments in any new gaming development opportunities or acquired facilities, or successfully expand to additional locations.

We may experience construction delays during our expansion or development projects which could adversely affect our operations.

We currently are engaged in substantial expansion projects at several of our properties. We also evaluate other expansion opportunities as they become available and we may in the future engage in additional construction projects. The anticipated costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects and contractors.

Construction projects entail significant risks, which can substantially increase costs or delay completion of a project. Such risks include shortages of materials or skilled labor, unforeseen engineering, environmental or geological problems, work stoppages, weather interference and unanticipated cost increases. Most of these factors are beyond our control. In addition, difficulties or delays in obtaining any of the requisite licenses, permits or authorizations from regulatory authorities can increase the cost or delay the completion of an expansion or development. Significant budget overruns or delays with respect to expansion and development projects could adversely affect our results of operations.

If our key personnel leave us, our business will be significantly adversely affected.

Our continued success will depend, among other things, on the efforts and skills of a few key executive officers and the experience of our property managers as well as our ability to attract and retain additional highly qualified personnel with gaming industry experience and qualifications to obtain the requisite licenses. We do not maintain “key man” life insurance for any of our employees. There is no assurance that we would be able to attract and hire suitable replacements for any of our key employees. We need qualified executives, managers and skilled employees with gaming industry experience to continue to successfully operate our business. We believe a shortage of skilled labor in the gaming industry may make it increasingly difficult and expensive to attract and retain qualified employees. We expect that increased competition in the gaming industry will intensify this problem.

Inclement weather and other conditions could seriously disrupt our business, financial condition and results of operations.

Dockside and riverboat facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather. Our riverboats and barges face additional risks from the movement of vessels on waterways.

Reduced patronage and the loss of a dockside or riverboat casino from service for any period of time could adversely affect our results of operations. For example, as a result of hurricanes Katrina and Rita, we closed the Isle-Biloxi from August 28, 2005 to December 26, 2005 and the Isle-Lake Charles from September 22, 2005 to October 8, 2005. While our business interruption insurance provided sufficient coverage for those losses, we cannot be assured that the proceeds from any future claim will be sufficient to compensate us if one or more of our casinos experience a closure.

In fiscal 2007, as a result of hurricane claims in the Gulf Coast region over the past several years, we have experienced a significant increase in property and business interruption premiums.

Access to a number of our facilities may also be affected by road conditions, such as construction and traffic. In addition, severe weather such as high winds and blizzards occasionally limits access to our facilities in Colorado.

Energy and fuel price increases may adversely affect our costs of operations and our revenues

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy have been experienced, substantial increases in the cost of electricity in the United States will negatively affect our results of operations. In addition, energy and fuel price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation to our properties, which would negatively impact our revenues. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material.

A downturn in general economic conditions may adversely affect our results of operations.

Our business operations are subject to changes in international, national and local economic conditions, including changes in the economy related to future security alerts in connection with threatened or actual terrorist attacks and related to the war with Iraq, which may affect our customers' willingness to travel. A recession or downturn in the general economy, or in a region constituting a significant source of customers for our properties, could result in fewer customers visiting our properties, which would adversely affect our results of operations.

We have international operations that are subject to different risks than our domestic operations.

In the United Kingdom and the Bahamas, we are subject to certain additional risks, including difficulty in staffing and managing foreign subsidiary operations, foreign currency fluctuations, dependence on foreign economies, political issues, adverse tax consequences and uncertainty in regulatory reform in the United Kingdom. In addition, in the Bahamas current gaming regulation preclude residence from participating in gaming activities. Therefore, disruptions in tourism traffic such as airline and other means of transportation and hotel accommodations can have an adverse impact in our gaming operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Isle-Lake Charles

We own approximately 2.7 acres and lease approximately 16.25 acres of land in Calcasieu Parish, Louisiana for use in connection with the Isle-Lake Charles. This lease automatically renewed in March 2005 and we have the option to renew it for sixteen additional terms of five years each. Rent under the Isle-Lake Charles lease is currently \$1.5 million per year and is subject to increases based on the Consumer Price Index ("CPI") and construction of hotel facilities on the property. We own two hotels in Lake Charles with a total of 493 rooms.

The Isle-Bossier City

We own approximately 38 acres of land in Bossier City, Louisiana for use in connection with the Isle-Bossier City and we own two hotels with 565 rooms on approximately 10.5 acres of land located 2.5 miles east of the Isle-Bossier City. We presently have a pending purchase agreement with Legends Gaming, LLC to sell our Bossier City operations which we expect to close in the second quarter of fiscal year 2007.

The Isle-Lula

We lease approximately 1,000 acres of land in Coahoma County, Mississippi and utilize approximately 50 acres in connection with the operations of the Isle-Lula. Unless terminated by us at an earlier date, the lease expires in 2033. Rent under the lease is currently 5.5% of gross gaming revenue as calculated by the Mississippi Gaming Commission, plus \$5,000 per month, as well as \$3,333 per month for the hotel. We also own approximately 100 acres in Coahoma County, which may be utilized for future development.

The Isle-Biloxi

We lease the Biloxi berth from the Biloxi Port Commission at an annual rent of the greater of \$500,000 or 1% of the gross gaming revenue net of state and local gaming taxes. The lease terminates on July 1, 2009 and we have the option to renew it for seven additional terms of five years each subject to increases based on the CPI, limited to 6% for each renewal period.

We lease the real estate upon which some of our land-based facilities are located from the City of Biloxi and the Mississippi Secretary of State at current annual rent of \$561,800 per year, plus 3% of the Isle-Biloxi's gross gaming revenues, net of state and local gaming taxes and fees, in excess of \$25.0 million. The lease terminates on July 1, 2009, but it is renewable at our option for five additional terms of five years each and a sixth option renewal term, concluding on January 31, 2034, subject to rent increases based on the CPI, limited to 6% for each renewal period. In April 1994, we entered into an addendum to this lease that requires us to pay 4% of our gross non-gaming revenue, net of sales tax, complimentaries and discounts. Additional rent will be due to the City of Biloxi for the amount of any increase from and after January 1, 2016, in the rent due to the State Institutions of Higher Learning under a lease between the City of Biloxi and the State Institutions of Higher Learning and for any increases in certain tidelands leases between the City of Biloxi and the State of Mississippi.

In April 1994, in connection with the construction of a hotel, we entered into a lease for additional land adjoining the Isle-Biloxi. This lease with the City of Biloxi and the Mississippi Secretary of State is for an initial term of 25 years, with options to renew for six additional terms of ten years each and a final option period concluding December 31, 2085. Current annual rent is \$605,000 plus 4% of gross non-gaming revenue, as defined in the lease, and renewals are subject to rent increases based on the CPI. The annual rent is adjusted after each five-year period based on increases in the CPI, limited to a 10% increase in any five-year period.

In August 2002, we entered into a lease for two additional parcels of land adjoining the Isle-Biloxi and the hotel. On the parcel adjoining the Isle-Biloxi, we constructed a multi-level parking garage that has approximately 1,000 parking spaces. There is additional ground level parking on a parcel of land in front of the garage, also subject to this lease, with approximately 600 parking spaces. We have constructed a 400-room addition to the existing hotel on the parcel leased next to the existing hotel. In addition, we may construct a hotel above the parking garage. This lease with the City of Biloxi and the Mississippi Secretary of State is for an initial term of forty years, with one option to renew for an additional twenty-five years and additional options thereafter, with the consent of the Mississippi Secretary of State, consistent with the term of the lease described in the preceding paragraph. When combined with the base and percentage rents described for the leases in the preceding two paragraphs, annual rent under those two leases and this lease is estimated to be \$4.3 million for the lease year ending July 31, 2006 and \$4.4 million for lease year ending July 31, 2007. Such minimum rent to increase thereafter over time in accordance with a formula based on anticipated timing for completion of the current hotel and completion of the hotel on top of the parking garage (or August 31, 2008, whichever occurs first), up to a minimum rent of \$3.7 million. Such amounts are subject to decreases due to market adjustments and increases based on the CPI. Also, we are responsible for annual rent equal to 4% of gross retail revenue and gross cash revenue (as defined in the lease), but without double counting. If the rent minimum described in the preceding sentences is not otherwise satisfied from other rents, then this percentage rent is not in addition to the minimum rent, but rather is to be applied to that minimum.

In connection with and pursuant to a settlement between the City of Biloxi and the State of Mississippi concerning the control and management area where the Isle-Biloxi is located, we also have agreed to pay the City of Biloxi's lease obligations to the State of Mississippi. This amount is \$500,000 per year, payable on June 30, subject to increases based on the CPI and decreases if there are other tenants of the subject property. This obligation ends after June 2018, but may be renewed for thirty years.

We have also entered into a joint venture arrangement to sublease property containing a two-level parking garage next to the Isle-Biloxi. Our annual rent under this lease is approximately \$212,500. The current term is for five years expiring December 31, 2010, with a renewal option for an additional five-year term (under which our annual rent would increase based on a Consumer Price Index) extending the lease through December 31, 2015.

The Isle-Vicksburg

We own approximately 13.1 acres of land in Vicksburg, Mississippi for use in connection with the Isle-Vicksburg. We own an additional thirteen acres of land in Vicksburg on which we operate off-site parking and a recreational vehicle park. We also entered into a lease for approximately five acres of land adjacent to the Isle-Vicksburg to be used for additional parking. We presently have a pending purchase agreement with Legends Gaming, LLC to sell our Vicksburg operations which we expect to close in the second quarter of fiscal year 2007.

The Isle-Natchez

Through numerous lease agreements, we lease approximately 24 acres of land in Natchez, Mississippi that is used in connection with the operations of the Isle-Natchez. Unless terminated by us at an earlier date, the leases have varying expiration dates through 2037. Rents under the leases currently total approximately \$101,000 per month. We also lease approximately 7.5 acres of land that is utilized for parking at the facility. We own approximately six acres of property in Natchez, Mississippi, as well as the property upon which our hotel is located.

The Isle-Kansas City

We lease approximately twenty-eight acres from the Kansas City Port Authority in connection with the operation of the Isle-Kansas City facility. The term of the lease is ten years, expiring in October 2006, and we have the option to renew the lease for eight additional terms of five years each. Rent under the lease is currently \$3.0 million per year, subject to the higher of \$2.0 million (minimum rent) per year, or 3.25% of gross revenues, less complimentary. As a part of our expansion plans, we are negotiating a new lease with the Kansas City Port Authority.

The Isle-Boonville

The Company entered into a lease agreement with the City of Boonville. Under the terms of agreement, the Company leases the site for a period of ninety-nine years. In lieu of rent, the Company is assessed additional amounts by the City of Boonville based on a 3.5% tax on gaming revenue, which the Company recognizes as additional rent.

The Isle-Bettendorf

We own approximately 24.6 acres of land in Bettendorf, Iowa used in connection with the operations of the Isle-Bettendorf. We also lease approximately eight acres of land on a month-to-month basis from an entity owned by family members of our chief executive officer, Bernard Goldstein, including Robert S. Goldstein, vice chairman and director and Jeffrey D. Goldstein, director of our company, which we utilize for parking and warehouse space. The initial term of the lease expires sixty days after written notice is given to either party and rent under the lease is currently \$23,360 per month.

The Rhythm City-Davenport

Pursuant to various lease agreements, we lease approximately twelve acres of land in Davenport, Iowa used in connection with the operations of Rhythm City-Davenport. The aggregate annual rent on these leases is approximately \$0.8 million and they have varying expiration dates through 2022. We also own a 121-room hotel on approximately one acre of land located several blocks northeast of the Rhythm City-Davenport.

The Isle-Marquette

We lease the dock site in Marquette, Iowa that is used in connection with the operations of the Isle-Marquette. The lease expires in 2019, and rent under the lease is currently \$15,000 per month, plus \$0.50 per passenger, plus 2.5% of gaming revenues (less state wagering taxes) in excess of \$20.0 million but less than \$40.0 million; 5% of gaming revenues (less state wagering taxes) in excess of \$40.0 million but less than \$60.0 million; and 7.5% of gaming revenues (less state wagering taxes) in excess of \$60.0 million. We also rent approximately 5 acres of land used for the employee parking lot

that is a month-to-month rental of \$833. We also own approximately twenty-five acres of land for the pavilion, hotel, satellite offices, warehouse, lots by the marina, and other property.

The Isle-Black Hawk

Through our 57% ownership interest in Isle-Black Hawk, we own approximately 10.1 acres of land in Black Hawk, Colorado for use in connection with the Isle-Black Hawk.

The Colorado Central Station-Black Hawk

Through our 57% ownership interest in Colorado Central Station-Black Hawk, we own or lease approximately 7.1 acres of land in Black Hawk, Colorado for use in connection with the Colorado Central Station-Black Hawk. We lease additional parcels of land adjoining the Colorado Central Station-Black Hawk for parking. This lease is for an initial term of nine years with options to renew for eighteen additional terms of five years each with the final option period concluding June 1, 2094. Annual rent is \$1.7 million indexed to correspond to any rise or fall in the CPI at one-year intervals beginning June 1, 1996, not to exceed a 3% increase or decrease from the previous year's rate. We also entered into a lease for additional parking. This lease is for an initial term of ten years with options to renew for nine additional terms of ten years each with the final option period concluding June 1, 2094. Annual rent is \$576,000 and renewals are subject to 20% rent increases over the rate of the previous term.

Pompano Park

We own approximately 223 acres at Pompano Park.

The Isle-Our Lucaya

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

Blue Chip-Dudley

Through our two-thirds ownership interest in Blue Chip PLC, we own the 15,000 square-foot building used for the Blue Chip-Dudley casino operation. We also own an 8,000 square-foot parking area for the casino.

Blue Chip-Wolverhampton

Through our two-thirds ownership interest in Blue Chip PLC, we own the 15,000 square-foot building used for the Blue Chip-Wolverhampton casino operation. We also own a 2,000 square foot parking area for the casino.

Blue Chip-Walsall

Through our two-thirds ownership interest in Blue Chip PLC, we own the 17,938 square-foot building used for the Blue Chip-Walsall casino operation.

Coventry

We entered into a twenty-five year lease in December 2003, to lease approximately 120,000 square feet within the arena compound that will be used in connection with the operation of the Isle-Coventry. We have paid approximately £6.0 million plus 17.5% value added tax (“VAT”) (\$10.9 million plus VAT as of April 30, 2006, based on published exchange rates) for prepaid rent. Due to delayed construction we will start to make lease payments in the second quarter of fiscal 2007 rather than fourth quarter of fiscal 2006 in the approximate amount of £1.3 million plus VAT (\$2.4 million plus VAT as of April 30, 2006, based on published exchange rates) per year. The lease payment will be offset by the £6.0 million plus VAT (\$10.9 million plus VAT as of April 30, 2006, based on published exchange rates) prepaid rent and interest of 8% per annum on the unpaid balance that reduces annual rent expenses over 15 years.

Other

We own all of the riverboats and barges utilized at our facilities. We also own or lease all of our gaming and non-gaming equipment.

We lease our corporate office in Biloxi, Mississippi and our corporate office in Boca Raton, Florida.

We have entered into a lease for our new corporate office location in Creve Coeur, Missouri.

We own additional property and have various property leases and options to either lease or purchase property that are not directly related to our existing operations and that may be utilized in the future in connection with expansion projects at our existing facilities or development of new projects, including our proposed development in west Harrison County, Mississippi and our project currently under construction in Waterloo, Iowa.

ITEM 3. LEGAL PROCEEDINGS.

Lady Luck Gaming Corporation (now our wholly owned subsidiary) and several joint venture partners are defendants in a lawsuit brought by the country of Greece through its Minister of Tourism (now Development) and Finance. The action alleges that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. The payment we are alleged to have been required to make aggregates approximately 6.5 million Euros (which was approximately \$8.2 million as of April 30, 2006 based on published exchange rates). Although it is difficult to determine the damages being sought from the lawsuit, the action may seek damages up to that aggregate amount plus interest from the date of the action. The Athens Civil Court of First Instance granted judgment in our favor and dismissed the lawsuit, but the Ministry 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 was set for hearing before the Greek Supreme Court during May 2006; however, prior to the scheduled hearing date, the Greek Supreme Court reset the hearing for January 8, 2007. We intend to continue a vigorous and appropriate defense to the claims asserted in this matter.

We are subject to certain federal, state and local environmental protection, health and safety laws, regulations and ordinances that apply to businesses generally, and are subject to cleanup requirements at certain of our facilities as a result thereof. We have not made, and do not anticipate making, material expenditures, nor do we anticipate incurring delays with respect to environmental remediation or protection. However, in part because our 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 we will not experience material liabilities or delays.

We are subject to various contingencies and litigation matters and have a number of unresolved claims. Although the ultimate liability of these contingencies, this litigation and these claims cannot be determined at this time, we believe that they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Footnote 20 to the Consolidated Financial Statements for further discussion of these matters.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a)

i. Market Information. Our common stock is traded on the NASDAQ National Market under the symbol "ISLE". The following table presents the high and low closing sales prices for our common stock as reported by the NASDAQ National Market for the fiscal periods indicated.

	High	Low
Fiscal Year Ending April 29, 2007		
First Quarter (through July 3, 2006)	\$ 33.01	\$ 23.86
Fiscal Year Ended April 30, 2006		
Fourth Quarter	\$ 33.93	\$ 27.70
Third Quarter	28.76	20.30
Second Quarter	28.67	19.48
First Quarter	28.87	22.60
Fiscal Year Ended April 24, 2005		
Fourth Quarter	\$ 30.68	\$ 23.77
Third Quarter	27.90	20.24
Second Quarter	22.26	15.90
First Quarter	23.55	16.25

ii. Holders of Common Stock. As of July 3, 2006, there were approximately 1,576 holders of record of our common stock.

iii. Dividends. We have never declared or paid any dividends with respect to our common stock and the current policy of our board of directors is to retain earnings to provide for the growth of the company. In addition, our senior secured credit facility and the indentures governing our 7%

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senior subordinated notes and our 9% senior subordinated notes limit our ability to pay dividends. See “Item 8-Financial Statements and Supplementary Data-Isle of Capri Casinos, Inc.-Notes to Consolidated Financial Statements - Note 7.” Consequently, no cash dividends are expected to be paid on our common stock in the foreseeable future. Further, there can be no assurance that our current and proposed operations will generate the funds needed to declare a cash dividend or that we will have legally available funds to pay dividends. In addition, we may fund part of our operations in the future from indebtedness, the terms of which may prohibit or restrict the payment of cash dividends. If a holder of common stock is disqualified by the regulatory authorities from owning such shares, such holder will not be permitted to receive any dividends with respect to such stock. See “Item 1-Business-Regulation and Licensing.”

iv. Equity Compensation Plans. The following table provides information about securities authorized for issuance under our 1992, 1993 and 2000 Employee Stock Option Plans, and our Deferred Bonus Plan, for the fiscal year ended April 30, 2006.

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,932,100	\$ 15.85	1,186,032
Equity compensation plans not approved by security holders	-	-	-
Total	2,932,100	\$ 15.85	1,186,032

(b) Issuance of Unregistered Securities

None.

(c) Purchases of our Common Stock

The following table provides information related to our purchases of Isle of Capri Casinos, Inc. common stock:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs (1)</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Programs (1)</u>
January 23, 2006 to February 19, 2006	-	\$ -	-	1,620,902
February 20, 2006 to March 26, 2006	-	-	-	1,620,902
March 27, 2006 to April 30, 2006	-	-	-	1,620,902

Total	- \$	-	-	1,620,902
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(1) We have purchased our common stock under two separate repurchase programs. The first program, which allowed repurchase of up to 1,500,000 shares was announced on November 15, 2000, and subsequently expanded to allow repurchase of an additional 1,500,000 shares, as announced on January 11, 2001. The current program was announced on October 25, 2002 and allows for the repurchase of up to 1,500,000 shares. On October 7, 2005 the board also approved the repurchase of an additional 1,500,000 shares. To date, we have purchased 4,379,098 shares of our common stock under the two programs. These programs have no approved dollar amounts, nor expiration dates.

ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data for the five most recent fiscal years, which is derived from our audited consolidated financial statements and the notes to those statements. Because the data in this table does not provide all of the data contained in our consolidated financial statements, including the related notes, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, including the related notes contained elsewhere in this document and other data we have filed with the U.S. Securities and Exchange Commission.

	Fiscal Year Ended (1)				
	April 30, 2006	April 24, 2005	April 25, 2004	April 27, 2003	April 28, 2002
Income Statement Data:					
(dollars in millions, except per share data)					
Revenues:					
Casino	\$ 1,004.6	\$ 957.8	\$ 948.9	\$ 878.6	\$ 879.2
Rooms	37.0	33.1	33.4	38.8	45.6
Pari-mutuel commissions and fees	20.6	20.1	20.3	23.9	23.5
Food, beverage and other	126.0	124.8	120.3	117.3	128.5
Gross revenues	1,188.2	1,135.8	1,122.9	1,058.6	1,076.8
Less promotional allowances	200.2	188.3	183.4	166.3	169.8
Net revenues	988.0	947.5	939.5	892.3	907.0
Operating expenses:					
Casino	152.5	157.3	152.3	151.9	164.0
Gaming taxes	220.0	215.1	208.9	192.9	190.8
Rooms	8.5	7.5	7.5	9.3	11.2
Pari-mutuel	16.1	15.5	15.4	16.9	16.8
Food, beverage and other	31.5	29.8	26.6	28.7	30.2
Marine and facilities	58.1	56.7	54.4	54.3	58.2
Marketing and administrative	294.0	274.3	260.8	238.7	241.7
Valuation and other charges	13.5	4.1	-	1.9	61.4