BOCA RESORTS INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

o 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: 1-13173

BOCA RESORTS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**65-0676005**
(State of Incorporation)	(I.R.S. Employer Identification No.)
501 East Camino Real **Boca Raton, Florida**	**33432**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(561) 447-5300**

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report:

Not Applicable

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 x No o

As of May 14, 2002, there were 39,523,879 shares of Class A Common Stock, $.01 par value per share, and 255,000 shares of Class B Common Stock, $.01 par value per share, outstanding.

PART I

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	March 31, 2002	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,630	$ 9,909
Restricted cash	667	500
Accounts receivable, net	28,228	23,415
Inventory	7,116	7,232
Current portion of Premier Club notes receivable	3,721	4,009
Other current assets	2,583	6,003
Net assets of discontinued operations		45,711
Total current assets	51,945	96,779
Property and equipment, net	827,966	792,094
Intangible assets, net	34,496	34,518
Long-term portion of Premier Club notes receivable, net	7,882	8,224
Other assets	14,127	14,517
Total assets	$936,416	$946,132
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 36,019	$ 32,402
Current portion of deferred revenue and advance deposits	27,542	18,683
Net liabilities of discontinued operations	9,898	
Current portion of credit lines and notes payable	222	209
Total current liabilities	73,681	51,294
Credit lines and notes payable	157	342
Deferred revenue, net of current portion	39,859	35,479
Other liabilities	9,790	10,160
Deferred income taxes	29,502	32,436
Senior subordinated notes payable	215,960	272,960
Premier Club refundable membership fees	56,630	57,818
Commitments and contingencies		
Shareholders equity:		
Class A Common Stock, $.01 par value, 100,000,000 shares authorized and 39,506,110 and 39,621,027 shares issued and outstanding at March 31, 2002 and June 30, 2001, respectively	395	396
Class B Common Stock, $.01 par value, 10,000,000 shares authorized and 255,000 shares issued and outstanding at March 31, 2002 and June 30, 2001	3	3
Contributed capital	464,249	464,626

Retained earnings	46,190	20,618
Total shareholders equity	510,837	485,643
Total liabilities and shareholders equity	$936,416	$946,132

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31
(In thousands, except per share data)
(Unaudited)

	2002	2001
Leisure and recreation revenue	$ 99,988	$ 101,986
Operating expenses:		
Cost of leisure and recreation services	37,091	37,055
Selling, general and administrative expenses	21,479	19,628
Amortization and depreciation	8,615	7,699
Total operating expenses	67,185	64,382
Operating income	32,803	37,604
Interest and other income	50	2,582
Interest and other expense	(6,026)	(10,514)
Income from continuing operations before income taxes	26,827	29,672
Provision for income taxes	(10,731)	
Income from continuing operations	16,096	29,672
Loss from discontinued operations, net of income tax benefit		(1,273)
Extraordinary loss on early retirement of debt, net of income tax benefit		(1,823)
Net income	$ 16,096	$ 26,576
Income per share from continuing operations	$ 0.40	$ 0.73
Income (loss) per share from discontinued operations		(0.03)
Loss per share from extraordinary item		(0.04)
Net income per share basic	$ 0.40	$ 0.65
Income per share from continuing operations	$ 0.40	$ 0.71
Income (loss) per share from discontinued operations		(0.03)
Loss per share from extraordinary item		(0.04)
Net income per share diluted	$ 0.40	$ 0.64
Shares used in computing income (loss) per share basic	39,749	40,887
Shares used in computing income (loss) per share diluted	40,656	41,666

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Nine Months Ended March 31
(In thousands, except per share data)
(Unaudited)

	2002	2001
Leisure and recreation revenue	$197,290	$257,116
Operating expenses:		
Cost of leisure and recreation services	89,029	111,672
Selling, general and administrative expenses	61,627	69,770
Amortization and depreciation	24,843	26,953
Total operating expenses	175,499	208,395
Operating income	21,791	48,721
Interest and other income	1,034	4,067
Interest and other expense	(18,138)	(38,465)
Income from continuing operations before income taxes	4,687	14,323
Provision for income taxes	(1,875)	
Income from continuing operations	2,812	14,323
Loss from discontinued operations, net of income tax benefit		(12,075)
Gain on disposition of discontinued operations, net of income taxes	23,728	
Extraordinary loss on early retirement of debt, net of income tax benefit	(968)	(1,823)
Net income	$ 25,572	$ 425
Income per share from continuing operations	$ 0.07	$ 0.35
Income (loss) per share from discontinued operations	0.60	(0.30)
Loss per share from extraordinary item	(0.02)	(0.04)
Net income per share basic	$ 0.64	$ 0.01
Income per share from continuing operations	$ 0.07	$ 0.35
Income (loss) per share from discontinued operations	0.59	(0.29)
Loss per share from extraordinary item	(0.02)	(0.04)
Net income per share diluted	$ 0.63	$ 0.01
Shares used in computing income (loss) per share basic	39,798	40,887
Shares used in computing income (loss) per share diluted	40,557	41,502

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended March 31
(In thousands)
(Unaudited)

	2002	2001
Operating activities:		
Net income	$ 25,572	$ 425
Extraordinary loss on early extinguishment of debt, net of benefit for income taxes	968	1,823
Adjustments to reconcile income before extraordinary loss, net of benefit for income taxes to net cash provided by operating activities:		
Amortization and depreciation	24,843	26,953
Imputed interest on indebtedness with no stated rate		725
Loss from discontinued operations, net of benefit for income taxes		12,075
Gain on disposition of discontinued operations, net of income taxes	(23,728)	
Changes in operating assets and liabilities		
Accounts receivable	(4,813)	(16,525)
Other assets	2,836	615
Accounts payable and accrued expenses	4,962	272
Deferred revenue and other liabilities	9,474	15,276
Net assets/liabilities from discontinued operations		(8,594)
Net cash provided by operating activities	40,114	33,045
Investing activities:		
Net proceeds from the disposition of discontinued operations	80,061	
Net proceeds from the sale of the Arizona Biltmore Resort & Spa		279,925
Capital expenditures	(61,929)	(47,988)
Change in restricted cash	(167)	(3,860)
Cash provided by investing activities from discontinued operations		1,868
Net cash provided by investing activities	17,965	229,945
Financing activities:		
Borrowings under credit facilities	24,500	38,430
Payments under long-term debt agreements and credit facilities	(24,672)	(125,576)
Repurchases of 9.875% senior subordinated notes payable	(57,000)	(60,040)
Repurchases of common stock	(2,306)	
Proceeds from exercise of stock options	1,120	147
Cash used in financing activities from discontinued operations		(2,500)
Net cash used in financing activities	(58,358)	(149,539)
Cash provided by (used in) continuing operations	(80,340)	110,602

Cash provided by discontinued operations	80,061	2,849
Cash and cash equivalents, at beginning of period	9,909	7,796
Cash and cash equivalents, at end of period	$ 9,630	$ 121,247

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Boca Resorts, Inc. and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial information furnished in this report reflects all material adjustments (including normal recurring accruals) necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended March 31, 2002 are not necessarily indicative of the results to be expected for the entire year primarily due to seasonal variations and because the nine months ended March 31, 2002 included a non-recurring gain on the disposition of the entertainment and sports business. See Notes 2 and 5. All significant intercompany accounts have been eliminated.

2. Nature of Operations

The Company is an owner and operator of five luxury resorts located in Florida with hotels, conference facilities, golf courses, spas, marinas and private clubs. The Company s resorts include the Boca Raton Resort & Club (Boca Raton), the Registry Resort at Pelican Bay (Naples), the Edgewater Beach Hotel (Naples), the Hyatt Regency Pier 66 Hotel and Marina (Fort Lauderdale), and the Radisson Bahia Mar Resort and Yachting Center (Fort Lauderdale). The Company also owns and operates two championship golf courses located in Florida Grande Oaks Golf Club in Davie and Naples Grande Golf Club in Naples.

On July 25, 2001, the Company sold its entertainment and sports business, which primarily consisted of the operations of the Florida Panthers Hockey Club and related arena management operations. Accordingly, the Company s entertainment and sports business has been accounted for as discontinued operations and the accompanying Consolidated Financial Statements presented herein have been restated to report separately the net assets or liabilities and operating results of this discontinued operation. See Note 5.

3. Earnings Per Common Share

Basic earnings per share equals net income divided by the number of weighted average common shares outstanding. Diluted earnings per share includes the effects of common stock equivalents to the extent they are dilutive.

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In Thousands)	**2002**	**2001**	**2002**	**2001**
Basic weighted average shares outstanding	39,749	40,887	39,798	40,887
Stock options	907	779	759	615
Diluted weighted average shares outstanding	40,656	41,666	40,557	41,502

Options to purchase 5.8 million and 5.6 million shares of common stock were outstanding at March 31, 2002 and 2001, respectively, but were not included in the computation of earnings per share because the effect would be antidilutive.

4. Income Taxes

The Company recorded a provision for income taxes from continuing operations in the amount of $10.7 million during the three months ended March 31, 2002 and $1.9 million during the nine months ended

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

March 31, 2002. No provision for income taxes was recorded during the three and nine months ended March 31, 2001 due to an offsetting decrease in the Company s tax valuation allowance. Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the Company s ability to generate future taxable income. The tax valuation allowance is adjusted in the period management determines it is more likely than not that deferred tax assets will or will not be realized. The Company continued to maintain a tax valuation allowance at March 31, 2001 because management believed the Company s ability to generate future taxable income and realization of the deferred tax asset was not more likely than not due to the volatility of the entertainment and sports business. This business was subsequently sold and, therefore, the tax valuation allowance was released during the three months ended June 30, 2001.

5. Sale of Entertainment and Sports Business

On July 25, 2001 the Company sold its entertainment and sports business. The selling price for the business, which incorporated certain working capital adjustments, consisted of $83.5 million in cash, an $11.3 million secured promissory note (which was paid January 25, 2002) and the assumption by the purchasers of certain off-balance sheet contingencies including a $10 million construction obligation secured by a performance bond. The net proceeds from the sale of the business after payment of disposal costs and income taxes is expected to approach $70.0 million and the gain on disposition was $23.7 million. Net liabilities from discontinued operations included in the accompanying Consolidated Balance Sheet in the amount of $9.9 million at March 31, 2002 represents estimated income taxes payable associated with the gain on the sale and other disposal costs.

6. Legal Proceedings

Upon the sale of the Arizona Biltmore Resort & Spa in December 2000, the Company remained contingently liable for certain litigation relating to the property. Based on discussions and a settlement offer made in January 2002, which has been accepted by one plaintiff but remains subject to the approval of a second plaintiff, the Company estimates that the settlement amount resulting from the ultimate resolution of this litigation will approximate $2.9 million. Such amount is included in accounts payable and accrued liabilities at March 31, 2002 in the accompanying Consolidated Balance Sheet.

7. Recently Implemented Accounting Standards

On July 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets which states, among other things, that goodwill is no longer subject to amortization over its estimated useful life. Under the statement, the Company was required to complete the goodwill transition impairment test by December 31, 2001, which resulted in no impairment charge. As a result of the adoption of the provisions of this statement, amortization expense for the nine months ended March 31, 2002 was $702,000 less than during the nine months ended March 31, 2001.

The Financial Accounting Standards Board recently issued SFAS No. 145, which rescinds SFAS No. 4. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 eliminates SFAS No. 4 and, thus, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion 30. Applying the provisions of APB Opinion 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. The provisions of this Statement related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented, that does not

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

meet the criteria in APB Opinion No. 30 for classification as an extraordinary item, shall be reclassified. Early application of the provisions of this Statement related to the rescission of Statement 4 is encouraged. Accordingly, upon adoption of SFAS No. 145, the Company will reclassify extraordinary losses resulting from the early extinguishment of debt associated with previous periods to recurring operations.

8. Comprehensive Income

Comprehensive income was the same as net income for the three and nine months ended March 31, 2002 and 2001.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This report may not contain all the information that is important to you and should be read together with the Annual Report on Form 10-K/A for the fiscal year ended June 30, 2001.

Business Philosophy

The Company s current business strategy is to focus on expanding the leisure and recreation business. However, management continuously evaluates ownership, acquisition and divestiture alternatives with the intention of maximizing shareholder value.

Seasonality

The resort operations are generally seasonal. The resorts have generally experienced greater revenue, costs and earnings in the second and third quarters of the fiscal year ended June 30 due to increased occupancy and room rates during the winter months. Historically, approximately 16%, 25%, 35% and 24% of annual revenue has been derived during the first, second, third and fourth fiscal quarters, respectively.

Events of September 11

During the three-month period following the September 11 terrorist attacks on New York s World Trade Center towers and on the Pentagon, the Company s results of operations were adversely affected by travel disruption and short-term cancellation of group bookings at its properties. The Company s resorts experienced an increase in demand during the three months ended March 31, 2002 and management is optimistic that lodging fundamentals will continue to advance and operations will continue to approach pre-September 11 levels.

RESULTS OF OPERATIONS COMPARISON TO PRIOR YEAR HISTORICAL

The accompanying table for the three and nine months ended March 31 (expressed in 000 s) is set forth on a historical basis which includes operating results from the Arizona Biltmore Resort & Spa (sold in December 2000) and the entertainment and sports business (presented as a discontinued operation and sold in July 2001) during the prior year.