ISLE OF CAPRI CASINOS INC
Form 10-Q
December 03, 2010

UNITED STATES

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 October 24, 2010

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 0-20538

ISLE OF CAPRI CASINOS, INC.

Delaware	**41-1659606**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
600 Emerson Road, Suite 300, Saint Louis, Missouri	**63141**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(314) 813-9200**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company 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

As of December 1, 2010, the Company had a total of 32,938,016 shares of Common Stock outstanding (which excludes 3,843,358 shares held by us in treasury).

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	October 24, 2010 (unaudited)	April 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,133	$ 68,069
Marketable securities	23,014	22,926
Accounts receivable, net	7,766	8,879
Income taxes receivable	8,850	8,109
Deferred income taxes	16,826	16,826
Prepaid expenses and other assets	30,749	25,095
Total current assets	151,338	149,904
Property and equipment, net	1,122,523	1,098,942
Other assets:		
Goodwill	345,303	313,136
Other intangible assets, net	84,631	79,675
Deferred financing costs, net	8,712	10,354
Restricted cash	12,806	2,774
Prepaid deposits and other	16,826	20,055
Total assets	$ 1,742,139	$ 1,674,840
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 8,766	$ 8,754
Accounts payable	24,495	24,072
Accrued liabilities:		
Interest	8,113	14,779
Payroll and related	43,939	45,863
Property and other taxes	25,508	20,253
Other	49,266	43,434
Total current liabilities	160,087	157,155
Long-term debt, less current maturities	1,251,158	1,192,135
Deferred income taxes	28,291	29,193
Other accrued liabilities	40,431	38,972
Other long-term liabilities	16,833	17,166
Stockholders equity:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued		
Common stock, $.01 par value; 60,000,000 shares authorized; shares issued: 36,781,374 shares at October 24, 2010 and 36,771,730 shares at April 25, 2010	368	367
Class B common stock, $.01 par value; 3,000,000 shares authorized; none issued		
Additional paid-in capital	200,117	201,464
Retained earnings	94,881	98,555
Accumulated other comprehensive (loss) income	(3,736)	(8,060)
	291,630	292,326

Treasury stock, 3,843,358 shares at October 24, 2010 and 4,326,242 shares at April 25, 2010		(46,291)		(52,107)
Total stockholders equity		245,339		240,219
Total liabilities and stockholders equity	$	1,742,139	$	1,674,840

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 24, 2010	**October 25, 2009**	**October 24, 2010**	**October 25, 2009**
Revenues:				
Casino	$ 254,640	$ 251,173	$ 513,802	$ 513,436
Rooms	10,643	11,803	21,524	24,064
Pari-mutuel, food, beverage and other	33,997	33,286	68,088	67,581
Gross revenues	299,280	296,262	603,414	605,081
Less promotional allowances	(52,629)	(50,207)	(104,842)	(101,112)
Net revenues	246,651	246,055	498,572	503,969
Operating expenses:				
Casino	39,979	39,651	79,588	78,916
Gaming taxes	60,214	64,223	124,620	130,527
Rooms	2,725	2,824	5,494	5,881
Pari-mutuel, food, beverage and other	11,123	11,243	22,291	22,085
Marine and facilities	15,347	16,110	29,956	31,756
Marketing and administrative	63,808	64,167	127,428	128,255
Corporate and development	10,940	12,340	23,461	22,285
Expense recoveries and other charges, net		(6,762)		(6,762)
Depreciation and amortization	22,179	28,437	45,112	57,265
Total operating expenses	226,315	232,233	457,950	470,208
Operating income	20,336	13,822	40,622	33,761
Interest expense	(23,410)	(17,883)	(47,205)	(36,230)
Interest income	467	395	941	763
Derivative income (expense)	(743)		(2,230)	
Income (loss) from continuing operations before income taxes	(3,350)	(3,666)	(7,872)	(1,706)
Income tax benefit	1,537	6,039	3,404	5,134
Income (loss) from continuing operations	(1,813)	2,373	(4,468)	3,428
Income (loss) from discontinued operations, net of income taxes	794	(811)	794	(961)
Net income (loss)	$ (1,019)	$ 1,562	$ (3,674)	$ 2,467
Income (loss) per common share-basic and dilutive:				
Income (loss) from continuing operations	$ (0.06)	$ 0.07	$ (0.14)	$ 0.11
Income (loss) from discontinued operations, net of income taxes	0.03	(0.02)	0.03	(0.03)
Net income (loss)	$ (0.03)	$ 0.05	$ (0.11)	$ 0.08
Weighted average basic shares	32,783,726	32,319,789	32,615,815	32,049,444
Weighted average diluted shares	32,783,726	32,511,462	32,615,815	32,251,102

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance, April 25, 2010	36,771,730	$ 367	$ 201,464	$ 98,555	$ (8,060)	$ (52,107)	$ 240,219
Net loss				(3,674)			(3,674)
Deferred hedge adjustment, net of income tax provision of $2,652					4,441		4,441
Unrealized loss on interest rate cap contracts net of income tax benefit of $16					(26)		(26)
Foreign currency translation adjustments					(91)		(91)
Comprehensive income							650
Issuance of restricted stock from treasury stock			(5,816)			5,816	
Forfeiture of restricted stock	(2,497)						
Exercise of stock options	500		3				3
Issuance of deferred bonus shares	11,641	1					1
Stock compensation expense			4,466				4,466
Balance, October 24, 2010	36,781,374	$ 368	$ 200,117	$ 94,881	$ (3,736)	$ (46,291)	$ 245,339

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	October 24, 2010	**October 25, 2009**
Operating activities:		
Net income (loss)	$ (3,674)	$ 2,467
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	45,112	57,266
Amortization of deferred financing costs	1,642	1,164
Expense recoveries and other charges, net		(6,762)
Deferred income taxes	(3,537)	292
Stock compensation expense	4,466	4,108
Deferred compensation expense		48
Loss on derivative instruments	2,230	
(Gain) loss on disposal of assets	(202)	61
Changes in operating assets and liabilities, net of acquisition:		
Purchases of trading securities	(88)	(1,076)
Accounts receivable	1,124	3,083
Income tax receivable	(741)	5,432
Prepaid expenses and other assets	(2,065)	(7,413)
Accounts payable and accrued liabilities	4,465	2,053
Net cash provided by operating activities	48,732	60,723
Investing activities:		
Purchase of property and equipment	(25,720)	(15,269)
Net cash paid for acquisition, net of cash acquired	(76,167)	
Payments towards gaming license		(4,000)
(Decrease) increase in restricted cash	(9,766)	189
Net cash used in investing activities	(111,653)	(19,080)
Financing activities:		
Principal payments on debt	(4,464)	(4,454)
Net borrowings (repayments) on line of credit	63,500	(58,000)
Proceeds from exercise of stock options	3	178
Net cash provided by (used in) financing activities	59,039	(62,276)
Effect of foreign currency exchange rates on cash	(54)	35
Net decrease in cash and cash equivalents	(3,936)	(20,598)
Cash and cash equivalents, beginning of period	68,069	96,654
Cash and cash equivalents, end of the period	$ 64,133	$ 76,056

See notes to the condensed consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

Notes to Condensed Consolidated Financial Statements

(amounts in thousands, except share and per share amounts)

(Unaudited)

1. Nature of Operations

Isle of Capri Casinos, Inc., a Delaware corporation, was incorporated in February 1990. Except where otherwise noted, the words we, us, our and similar terms, as well as Company, refer to Isle of Capri Casinos, Inc. and all of its subsidiaries. We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States. Our wholly owned subsidiaries own and operate fourteen casino gaming facilities in the United States located in Black Hawk, Colorado; Lake Charles, Louisiana; Lula, Biloxi, Natchez and Vicksburg, Mississippi; Kansas City, Caruthersville and Boonville, Missouri; Bettendorf, Davenport, Waterloo and Marquette, Iowa; and Pompano Beach, Florida.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. The accompanying interim consolidated financial statements have been prepared without audit. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Certain reclassifications of prior year presentations have been made to conform to the fiscal 2011 presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended April 25, 2010 as filed with the SEC and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report, which are available on the SEC s website at *www.sec.gov* or our website at *www.islecorp.com*.

Our fiscal year ends on the last Sunday in April. Periodically, this system necessitates a 53-week year. Fiscal 2011 and 2010 are both 52-week years, which commenced on April 26, 2010 and April 27, 2009, respectively.

Discontinued operations include our former Blue Chip casinos in Dudley and Wolverhampton, England, sold in November 2009, our former casino in Freeport, Grand Bahamas, exited in November 2009 and our former casino in Coventry, England sold in fiscal year 2009. The results of our discontinued operations for the three and six months ended October 24, 2010 and October 25, 2009, are summarized as follows:

	Three Months Ended		**Six Months Ended**	
	October 24, 2010	**October 25, 2009**	**October 24, 2010**	**October 25, 2009**
Net revenues	$	$ 2,724	$	$ 6,298

Pretax loss from discontinued operations		(1,363)		(1,583)
Income tax benefit from discontinued operations	794	552	794	622
Income (loss) from discontinued operations	794	(811)	794	(961)

During the three months ended October 24, 2010, we recorded a tax benefit in discontinued operations related to the resolution of previously unrecognized tax positions related to our former UK operations (See Note 10).

The condensed consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation. We view each property as an operating segment and all operating segments have been aggregated into one reporting segment.

We evaluated all subsequent events through the date of the consolidated financial statements and have disclosed such subsequent events in the notes to the condensed consolidated financial statements. No material subsequent events have occurred that required recognition in the condensed consolidated financial statements.

3. Acquisition

We completed the acquisition of Rainbow Casino-Vicksburg Partnership, L.P. (Rainbow) located in Vicksburg, Mississippi on June 8, 2010 acquiring 100% of the partnership interests and have included the results of Rainbow in our consolidated financial statements subsequent to June 8, 2010. The purchase price was $76.2 million, which is net of cash acquired and purchase price adjustments. The preliminary allocation of the purchase price for these partnership interests was determined based upon estimates of future cash flows and evaluations of the net assets acquired. The transaction was accounted for using the acquisition method in accordance with the accounting guidance under Accounting Standards Codification Topic 805, *Business Combinations*. As a result, the net assets of Rainbow were recorded at their estimated fair value with the excess of the purchase price over the fair value of the net assets acquired allocated to goodwill. The acquisition was funded by borrowings from Isle s senior secured credit facility. The purchase price allocation remains preliminary as management is in process of obtaining third party valuations to assist in its determination of fair value for property and equipment, and intangible assets acquired.

Goodwill A rollforward of goodwill is as follows:

Balance April 25, 2010	$	313,136
Addition from Rainbow acquisition		32,167
Balance October 24, 2010	$	345,303

The pro forma results of operations, as if the acquisition of Rainbow had occurred on the first day of each fiscal year, are as follows:

	Three Months Ended		Six Months Ended	
	October 24, 2010	**October 25, 2009**	**October 24, 2010**	**October 25, 2009**
Pro forma				
Net Revenues	$ 246,651	$ 254,384	$ 502,388	$ 521,324
Income (loss) from continuing operations before income taxes	(3,350)	(2,789)	(7,757)	678
Net income (loss) from continuing operations	(1,813)	1,962	(4,396)	3,960
Basic earnings (loss) per share from continuing operations	(0.06)	0.06	(0.13)	0.12
Diluted earnings (loss) per share from continuing operations	(0.06)	0.06	(0.13)	0.12

4. Long-Term Debt

Long-term debt consists of the following:

		October 24, 2010		April 25, 2010
Senior Secured Credit Facility:				
Revolving line of credit, expires July 26, 2012, interest payable at least quarterly at either LIBOR and/or prime plus a margin	$	85,000	$	21,500
Variable rate term loans, mature November 25, 2013, principal and interest payments due quarterly at either LIBOR and/or prime plus a margin		813,059		817,256
7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1		357,275		357,275
Other		4,590		4,858
		1,259,924		1,200,889
Less current maturities		8,766		8,754
Long-term debt	$	1,251,158	$	1,192,135

Credit Facility - The Credit Facility as amended (Credit Facility) consists of a $375,000 revolving line of credit and an $875,000 term loan facility. The Credit Facility is secured on a first priority basis by substantially all of our assets and guaranteed by all of our significant subsidiaries.

Our net line of credit availability at October 24, 2010 as limited by our maximum leverage covenant was approximately $106,000. We have an annual commitment fee related to the unused portion of the Credit Facility of up to 0.75% which is included in interest expense in the accompanying consolidated statements of operations. The weighted average effective interest rate of the Credit Facility for the six months ended October 24, 2010 was 6.77%.

The Credit Facility includes a number of affirmative and negative covenants. Additionally, we must comply with certain financial covenants including maintenance of a leverage ratio and minimum interest coverage ratio. The Credit Facility also restricts our ability to make certain investments or distributions. We were in compliance with the covenants as of October 24, 2010.

7% Senior Subordinated Notes - Our 7% Senior Subordinated Notes are due 2014 (7% Senior Subordinated Notes) and are guaranteed, on a joint and several basis, by all of our significant subsidiaries and certain other subsidiaries as described in Note 13. All of the guarantor subsidiaries are wholly owned by us. The 7% Senior Subordinated Notes are general unsecured obligations and rank junior to all of our senior indebtedness. The 7% Senior Subordinated Notes are redeemable, in whole or in part, at our option at any time, with call premiums as defined in the indenture governing the 7% Senior Subordinated Notes.

The indenture governing the 7% Senior Subordinated Notes limits, among other things, our ability and our restricted subsidiaries ability to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase stock. The indenture also limits our ability to issue and sell capital stock of subsidiaries, sell assets in excess of specified amounts or merge with or into other companies.

5. Common Stock

Earnings per Share of Common Stock - The following table sets forth the computation of basic and diluted income (loss) per share:

	Three Months Ended		Six Months Ended	
	October 24, 2010	**October 25, 2009**	**October 24, 2010**	**October 25, 2009**
Numerator:				
Income (loss) applicable to common shares:				
Income (loss) from continuing operations	$ (1,813)	$ 2,373	$ (4,468)	$ 3,428
Income (loss) from discontinued operations	794	(811)	794	(961)
Net income (loss)	$ (1,019)	$ 1,562	$ (3,674)	$ 2,467
Denominator:				
Denominator for basic earnings (loss) per share - weighted average shares	32,783,726	32,319,789	32,615,815	32,049,444
Effect of dilutive securities Employee stock options		191,673		201,658
Denominator for diluted loss per share - adjusted weighted average shares and assumed conversions	32,783,726	32,511,462	32,615,815	32,251,102
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.06)	$ 0.07	$ (0.14)	$ 0.11
Loss from discontinued operations	0.03	(0.02)	0.03	(0.03)
Net income (loss)	$ (0.03)	$ 0.05	$ (0.11)	$ 0.08
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.06)	$ 0.07	$ (0.14)	$ 0.11
Loss from discontinued operations	0.03	(0.02)	0.03	(0.03)
Net income (loss)	$ (0.03)	$ 0.05	$ (0.11)	$ 0.08

Our basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Due to the loss from continuing operations, stock options representing 56,350 and 78,908 shares, which are potentially dilutive, and 1,075,210 and 975,210 shares which are anti-dilutive, were excluded from the calculation of common shares for diluted (loss) per share for the three and six months ended October 24, 2010, respectively. Stock options representing 544,604 and 523,175 shares which were anti-dilutive were excluded from the calculation of common shares for diluted income per share for the three and six month periods ended October 25, 2009, respectively.

Stock Based Compensation Under our amended and restated 2009 Long Term Incentive Plan we have issued stock options and restricted stock.

Restricted Stock During the three months ended October 24, 2010, we issued 306,247 shares of restricted stock with a weighted average grant-date fair value of $8.72 to employees and 191,126 shares of restricted stock with a weighted average grant-date fair value of $7.54 to directors under the Long Term Incentive Plan. Restricted stock awarded to employees under annual long-term incentive grants vests one-third on each anniversary of the grant date and for directors vests one-half on the grant date and one-half on the first anniversary of the grant date. Restricted stock previously awarded under our tender offer vests three years from the date of award. Our estimate of forfeitures for restricted stock for employees is 10%. No forfeiture rate is estimated for directors. As of October 24, 2010, our unrecognized compensation cost for unvested restricted stock is $6,254 with a remaining weighted average vesting period of 1.3 years.

Stock Options - We have issued incentive stock options and nonqualified stock options which have a maximum term of 10 years and are, generally, vested and exercisable in yearly installments of 20% commencing one year after the date of grant. We currently estimate our aggregate forfeiture rates at 12%. As of October 24, 2010, our unrecognized compensation cost for unvested stock options was $975 with a weighted average vesting period of 2.6 years.

6. Expense Recoveries and Other Charges, net

During the three months ended October 25, 2009, we recorded an expense recovery of $6,762 representing the discounted value of a receivable for reimbursement of development costs expended in prior periods relating to a terminated plan to develop a casino in Pittsburgh, Pennsylvania. This receivable was recorded following a revised assessment of collectability.

7. Interest Rate Derivatives

We have entered into various interest rate derivative agreements in order to manage market risk on variable rate term loans outstanding, as well as comply with requirements under the Credit Facility. We have interest rate swap agreements with an aggregate notional value of $200,000 with maturity dates through fiscal 2014. We have also entered into interest rate cap contracts with an aggregate notional value of $120,000 having maturity dates in fiscal 2012 and 2013 and paid premiums of $156 at inception.

As a result of the amendment to our Credit Facility in the fourth quarter of fiscal 2010, our interest rate swaps no longer meet the criteria for hedge effectiveness, and therefore changes in the fair value of the swaps subsequent to the date of ineffectiveness in February 2010, are recorded in derivative income (expense) in the consolidated statement of operations. Prior to their ineffectiveness, changes in the fair value of these interest rate swaps were adjusted through other comprehensive income (loss) as these derivative instruments qualified for hedge accounting. The cumulative loss recorded in other comprehensive income (loss) through the date of ineffectiveness will be amortized into derivative expense over the remaining term of the individual interest rate swap agreements or when the underlying transaction is no longer expected to occur. As of October 24, 2010, the weighted average fixed LIBOR interest rate of our interest rate swap agreements was 4.45%.

The interest rate cap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of October 24, 2010 as being fully effective. As a result, there is no impact on our consolidated statement of operations from changes in fair value of the interest rate cap agreements.

The loss recorded in other comprehensive income (loss) of our interest rate swap contracts is recorded net of deferred income tax benefits of $2,052 and $4,704, as of October 24, 2010 and April 25, 2010, respectively. The loss recorded in other comprehensive income (loss) for our interest rate cap contracts is recorded net of deferred income tax benefits of $46 and $30 as of October 24, 2010 and April 25, 2010, respectively.

The fair values of derivatives included in our consolidated balance sheet are as follows:

Type of Derivative Instrument	Balance Sheet Location	October 24, 2010	April 25, 2010
Interest rate cap contracts	Prepaid deposits and other	$ 28	$ 24
Interest rate swap contracts	Accrued interest	810	6,704
Interest rate swap contracts	Other long-term liabilities	7,278	6,247

We recorded income of $2,439 and $4,863 in derivative income (expense) related to the change in fair value of interest rate swap contracts during the three and six months ended October 24, 2010, respectively.

Additionally, during the three and six months ended October 24, 2010, we recorded expense of $3,182 and $7,093, respectively, in derivative income (expense) associated with the amortization of $1,992, net of taxes of $1,190 and $4,441, net of taxes of $2,652, of cumulative loss recorded in other comprehensive income (loss) for the interest rate swaps through the date of their ineffectiveness.

The change in unrealized gain (loss) on our derivatives qualifying for hedge accounting was $25 and $4 for the three and six months ended October 24, 2010, respectively. The change in unrealized gain (loss) on our derivatives qualifiying for hedge accounting was $2,461 and $4,759 for the three and six months ended October 25, 2009, respectively.

The amount of accumulated other comprehensive income (loss) related to interest rate swap contracts and interest rate cap contracts maturing within the next twelve months was $2,177, net of tax of $1,301, as of October 24, 2010.

8. Fair Value

The fair value of our interest swap and cap contracts are recorded at fair value using Level 3 inputs at the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation.

The following table presents the changes in Level 3 liabilities measured at fair value on a recurring basis for the three and six months ended October 24, 2010:

	October 24, 2010	
Interest Rate Derivatives	**Three Months Ended**	**Six Months Ended**
Beginning Balance	$ (10,524)	$ (12,927)
Realized gains/(losses)	2,439	4,863
Unrealized gains/(losses)	25	4
Balance at October 24, 2010	$ (8,060)	$ (8,060)

Financial Instruments - The estimated carrying amounts and fair values of our other financial instruments are as follows:

	October 24, 2010		April 25, 2010	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 64,133	$ 64,133	$ 68,069	$ 68,069
Marketable securities	23,014	23,014	22,926	22,296
Restricted cash	12,806	12,806	2,774	2,774
Notes receivable	7,515	7,515	8,510	8,510
Financial liabilities:				
Revolving line of credit	$ 85,000	$ 80,750	$ 21,500	$ 20,855
Variable rate term loans	813,059	792,733	817,256	800,911
7% Senior subordinated notes	357,275	334,088	357,275	326,013
Other long-term debt	4,590	4,590	4,858	4,858
Other long-term obligations	16,833	16,833	17,166	17,166

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, restricted cash and notes receivable are carried at cost, which approximates fair value due to their short-term maturities.

Marketable securities are based upon Level 1 inputs obtained from quoted prices available in active markets and represent the amounts we would expect to receive if we sold these marketable securities.

The fair value of our long-term debt or other long-term obligations is estimated based on the quoted market price of the underlying debt issue or, when a quoted market price is not available, the discounted cash flow of future payments utilizing current rates available to us for debt of similar remaining maturities. Debt obligations with a short remaining maturity have a carrying amount that approximates fair value.

9. Accumulated Other Comprehensive Income (Loss)

A detail of Accumulated other comprehensive income (loss) is as follows:

	October 24, 2010	April 25, 2010
Interest rate cap contracts	$ (76)	$ (50)
Interest rate swap contracts	(3,436)	(7,877)
Foreign currency translation loss	(224)	(133)
	$ (3,736)	$ (8,060)

The amount of change in the gain (loss) recognized in accumulated other comprehensive income (loss) related to derivative instruments is as follows:

	Three Months Ended		Six Months Ended	
Type of Derivative Instrument	October 24, 2010	October 25 2009	October 24, 2010	October 25 2009
Interest rate cap contracts	$ (13)	$	$ (26)	$
Interest rate swap contracts	1,992	1,540	4,441	2,977
	$ 1,979	$ 1,540	$ 4,415	$ 2,977

10. Income Taxes

During fiscal 2010, the IRS completed its examination of our federal income tax returns which relate to our fiscal years 2007 and 2008. The income tax examination changes were subject to review by the U.S. Congress Joint Committee on Taxation and on August 20, 2010 we received notification that the review had been completed with no exception to the examination. As a result, during the three months ended October 24, 2010, we recognized a tax benefit in discontinued operations of $794 related to the resolution of previously unrecognized tax positions related to our former UK operations.

Related to our uncertain tax positions, we accrued interest expense of $84 and $241 respectively, for the three and six months ended October 24, 2010 as a component of our income tax benefit. As of October 24, 2010, we have recognized a liability of $3,067 for interest and no amount for penalties.

During the quarter ended October 25, 2009, we settled Louisiana income tax examinations covering fiscal years ended April 2001 through April 2008. As a result of the actual taxes and interest due for these years being less than our previously accrued amounts, we recognized a benefit of $4,247 in our income tax provision during the three and six months ended October 25, 2009.

Our effective income tax rates from continuing operations for the three and six months ended October 24, 2010 were 45.9% and 43.2%, respectively. Our effective income tax rates from continuing operations for the three and six months ended October 25, 2009 were 164.7% and 301.1%, respectively. Without the impact of the settlement of certain Louisiana income tax matters during the three months ended October 25, 2009, our effective income tax rates for three and six months ended October 25, 2009, would have been 35.8% and 23.9%, respectively. Our actual effective rate will fluctuate based upon the amount of our pretax book income, permanent differences and other items used in the calculation of our income tax benefit.

11. Supplemental Cash Flow Disclosures

For the six months ended October 24, 2010 and October 25, 2009, we made net cash interest payments of $46,372 and $35,488, respectively. Additionally, we received income tax refunds of $71 and $4,480 during the six months ended October 24, 2010 and October 25, 2009, respectively.

In fiscal year 2006, we obtained a gaming license for our Waterloo, Iowa property and recorded an intangible asset of $18,547. Annual payments for the license are recorded on a yearly basis and for the six months ended October 25, 2009, we made payments of $4,000 towards the gaming license.

For the six months ended October 24, 2010 and October 25, 2009, the change in accrued purchases of property and equipment in accounts payable increased by $2,231 and $91, respectively.

12. Contingencies and Commitments

Legal and Regulatory Proceedings Lady Luck Gaming Corporation (now our wholly owned subsidiary) and several joint venture partners have been defendants in the Greek Civil Courts and the Greek Administrative Courts in similar lawsuits brought by the country of Greece. The actions allege that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. Although it is difficult to determine the damages being sought from the lawsuits, the action may seek damages up to that aggregate amount plus interest from the date of the action.

In the Civil Court lawsuit, the Civil Court of First Instance ruled in our favor and dismissed the lawsuit in 2001. Greece appealed to the Civil Appeal Court and, in 2003, the Court rejected the appeal. Greece then appealed to the Civil Supreme Court and, in 2007, the Supreme Court ruled that the matter was not properly before the Civil Courts and should be before the Administrative Court.

In the Administrative Court lawsuit, the Administrative Court of First Instance rejected the lawsuit stating that it was not competent to hear the matter. Greece then appealed to the Administrative Appeal Court, which court rejected the appeal in 2003. Greece then appealed to the Supreme Administrative Court, which remanded the matter back to the Administrative Appeal Court for a hearing on the merits. The re-hearing took place in 2006, and in 2008 the Administrative Appeal Court rejected Greece s appeal on procedural grounds. On December 22, 2008 and January 23, 2009, Greece appealed the ruling to the Supreme Administrative Court. A hearing has tentatively been scheduled for April 2011.

The outcome of this matter is still in doubt and cannot be predicted with any degree of certainty. We intend to continue a vigorous and appropriate defense to the claims asserted in this matter. Through October 24, 2010, we have accrued an estimated liability including interest of $11,189. Our accrual is based upon management s estimate of the original claim by the plaintiffs for lost payments. We continue to accrue interest on the asserted claim. We are unable to estimate a total possible loss as information as to possible additional claims, if any, have not been asserted or quantified by the plaintiffs at this time.

During January, 2010, we entered into an agreement to provide management services for a potential casino to be located at the Nemacolin Woodlands Resort in Farmington, Pennsylvania, (The Resort). The development of this casino is subject to numerous regulatory approvals including obtaining a state gaming license, which is a competitive award process among several applicants. If The Resort is successful in obtaining a gaming license, we have agreed to complete the build-out of the casino space. We currently estimate the project cost at approximately $50,000.

On December 1, 2010, our proposed casino in Cape Girardeau, Missouri was selected by the Missouri Gaming Commission for prioritization for the 13th and final gaming license in the State of Missouri. We had previously entered into a development agreement with the City of Cape Girardeau. The project is expected to include 1,000 slot machines, 28 table games, 3 restaurants, a lounge and terrace overlooking the Mississippi River and a 750-seat event center. We currently estimate the cost of the project at approximately $125,000 with an anticipated opening date by the end of calendar 2012.

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 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 they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

13. Consolidating Condensed Financial Information

Certain of our wholly owned subsidiaries have fully and unconditionally guaranteed on a joint and several basis, the payment of all obligations under our 7% Senior Subordinated Notes.

The following wholly owned subsidiaries of the Company are guarantors, on a joint and several basis, under the 7% Senior Subordinated Notes: Black Hawk Holdings, L.L.C.; Casino America of Colorado, Inc.; CCSC/Blackhawk, Inc.; Grand Palais Riverboat, Inc.; IC Holdings Colorado, Inc.; IOC-Black Hawk Distribution Company, L.L.C.; IOC-Boonville, Inc.; IOC-Caruthersville, L.L.C.; IOC-Kansas City, Inc.; IOC-Lula, Inc.; IOC-Natchez, Inc.; IOC-Black Hawk County, Inc.; IOC-Davenport, Inc.; IOC Holdings, L.L.C.; IOC Services, L.L.C.; IOC-Vicksburg, Inc.; IOC-Vicksburg, LLC; Rainbow Casino Vicksburg Partnership, L.P.; Isle of Capri Bahamas Holdings, Inc.; Isle of Capri Bettendorf Marina Corporation.; Isle of Capri Bettendorf, L.C; Isle of Capri Black Hawk Capital Corp.; Isle of Capri Black Hawk, L.L.C.; Isle of Capri Marquette, Inc.; P.P.I, Inc.; Riverboat Corporation of Mississippi; Riverboat Services, Inc.; and St. Charles Gaming Company, Inc. Each of the subsidiaries guarantees is joint and several with the guarantees of the other subsidiaries.

Consolidating condensed balance sheets as of October 24, 2010 and April 25, 2010 are as follows (in thousands):

	As of October 24, 2010				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Balance Sheet					
Current assets	$ 45,511	$ 78,225	$ 33,295	$ (5,693)	$ 151,338
Intercompany receivables	1,026,870	(229,779)	(46,323)	(750,768)	
Investments in subsidiaries	399,562	(64,387)		(335,175)	
Property and equipment, net	9,813	1,080,789	31,921		1,122,523
Other assets	59,565	444,338	19,781	(55,406)	468,278
Total assets	$ 1,541,321	$ 1,309,186	$ 38,674	$ (1,147,042)	$ 1,742,139
Current liabilities	$ 38,500	$ 89,524	$ 37,756	$ (5,693)	$ 160,087
Intercompany payables		750,768		(750,768)	
Long-term debt, less current maturities	1,246,934	3,544	680		1,251,158
Other accrued liabilities	10,548	117,114	13,299	(55,406)	85,555
Stockholders equity	245,339	348,236	(13,061)	(335,175)	245,339
Total liabilities and stockholders equity	$ 1,541,321	$ 1,309,186	$ 38,674	$ (1,147,042)	$ 1,742,139

	As of April 25, 2010				
	Isle of Capri Casinos, Inc. (Parent Obligor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
Balance Sheet					
Current assets	$ 35,835	$ 71,976	$ 43,193	$ (1,100)	$ 149,904
Intercompany receivables	990,557	(185,612)	(54,177)	(750,768)	
Investments in subsidiaries	390,369	(63,110)		(327,259)	
Property and equipment, net	7,579	1,059,147	32,216		1,098,942
Other assets	57,092	409,106	11,150	(51,354)	425,994
Total assets	$ 1,481,432	$ 1,291,507	$ 32,382	$ (1,130,481)	$ 1,674,840
Current liabilities	$ 46,581	$ 80,884	$ 30,790	$ (1,100)	$ 157,155
Intercompany payables		750,768		(750,768)	
Long-term debt, less current maturities	1,187,631	3,760	744		1,192,135
Other accrued liabilities	7,001	116,815	12,869	(51,354)	85,331
Stockholders equity	240,219	339,280	(12,021)	(327,259)	240,219
Total liabilities and stockholders equity	$ 1,481,432	$ 1,291,507	$ 32,382	$ (1,130,481)	$ 1,674,840

Consolidating condensed statements of operations for the three and six month periods ended October 24, 2010 and October 25, 2009 are as follows (in thousands):

	For the Three Months Ended October 24, 2010				
Statement of Operations	**Isle of Capri Casinos, Inc. (Parent Obligor)**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating and Eliminating Entries**	**Isle of Capri Casinos, Inc. Consolidated**
Revenues:					
Casino	$	$ 254,640	$	$	$ 254,640
Pari-mutuel, rooms, food, beverage and other	985	43,630	2,413	(2,388)	44,640
Gross revenues	985	298,270	2,413	(2,388)	299,280
Less promotional allowances		(52,629)			(52,629)
Net revenues	985	245,641	2,413	(2,388)	246,651
Operating expenses:					
Casino		39,979			39,979
Gaming taxes		60,214			60,214
Other operating expenses	11,476	93,003	1,852	(2,388)	103,943
Management fee expense (revenue)	(8,900)	8,900			
Depreciation and amortization	451	21,584	144		22,179
Total operating expenses					