

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

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended October 24, 2010

OR

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

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

Commission File Number 0-20538

## ISLE OF CAPRI CASINOS, INC.

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-1659606**

(I.R.S. Employer  
Identification Number)

**600 Emerson Road, Suite 300, Saint Louis, Missouri**

(Address of principal executive offices)

**63141**

(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  No

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  No

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 filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of 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,<br>2010<br>(unaudited) | April 25,<br>2010 |
|---|------------------------------------|-------------------|
| <b>ASSETS</b>   |                                    |                   |
| 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      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                    |                   |
| 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           |

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|   |              |              |
|---|--------------|--------------|
| 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,<br>2010 | October 25,<br>2009 | October 24,<br>2010 | October 25,<br>2009 |
| <b>Revenues:</b>  |                     |                     |                     |                     |
| 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             |
| <b>Operating expenses:</b>                                      |                     |                     |                     |                     |
| 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)             |                     |
| <b>Income (loss) from continuing operations</b>                 |                     |                     |                     |                     |
| 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               |
| <b>Income (loss) from discontinued operations, net</b>          |                     |                     |                     |                     |
| of income taxes   | 794                 | (811)               | 794                 | (961)               |
| Net income (loss)   | \$ (1,019)          | \$ 1,562            | \$ (3,674)          | \$ 2,467            |
| <b>Income (loss) per common share-basic and dilutive:</b>       |                     |                     |                     |                     |
| 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             |
| <b>Weighted average basic shares</b>                            |                     |                     |                     |                     |
|   | 32,783,726          | 32,319,789          | 32,615,815          | 32,049,444          |
| <b>Weighted average diluted shares</b>                          |                     |                     |                     |                     |
|   | 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<br>Common<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accum.<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total<br>Stockholders<br>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,<br>net of income tax provision<br>of \$2,652                |                              |                 |                                  |                      | 4,441  |                   | 4,441                           |
| Unrealized loss on interest<br>rate cap contracts net of<br>income tax benefit of \$16 |                              |                 |                                  |                      | (26)   |                   | (26)                            |
| Foreign currency translation<br>adjustments  |                              |                 |                                  |                      | (91)   |                   | (91)                            |
| Comprehensive income   |                              |                 |                                  |                      |  |                   | 650                             |
| Issuance of restricted stock<br>from treasury stock                                    |                              |                 | (5,816)                          |                      |  | 5,816             |                                 |
| Forfeiture of restricted stock   | (2,497)                      |                 |                                  |                      |  |                   |                                 |
| Exercise of stock options  | 500                          |                 | 3                                |                      |  |                   | 3                               |
| Issuance of deferred bonus<br>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,<br>2010 | October 25,<br>2009 |
| <b>Operating activities:</b>   |                     |                     |
| 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              |
| <b>Investing activities:</b>   |                     |                     |
| 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)            |
| <b>Financing activities:</b>   |                     |                     |
| 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)            |
| <b>Effect of foreign currency exchange rates on cash</b>                                 | <b>(54)</b>         | <b>35</b>           |
| 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](http://www.sec.gov) or our website at [www.islecorp.com](http://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:

|              | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | <b>October 24,<br/>2010</b> | <b>October 25,<br/>2009</b> | <b>October 24,<br/>2010</b> | <b>October 25,<br/>2009</b> |
| Net revenues | \$                          | \$                          | 2,724                       | \$ 6,298                    |

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|   |     |         |     |         |
|---|-----|---------|-----|---------|
| 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,<br>2010 | October 25,<br>2009 | October 24,<br>2010 | October 25,<br>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,<br>2010 | April 25,<br>2010 |
|--|---------------------|-------------------|
| <b>Senior Secured Credit Facility:</b>   |                     |                   |
| 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           |
| <b>7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1</b>  |                     |                   |
| Other  | 357,275             | 357,275           |
|  | 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,<br>2010 | October 25,<br>2009 | October 24,<br>2010 | October 25,<br>2009 |
| <b>Numerator:</b>   |                     |                     |                     |                     |
| 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            |
| <b>Denominator:</b>   |                     |                     |                     |                     |
| 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          |
| <b>Basic earnings (loss) per share:</b>   |                     |                     |                     |                     |
| 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             |
| <b>Diluted earnings (loss) per share:</b>   |                     |                     |                     |                     |
| 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

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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:

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| 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.

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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 qualifying 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:

| Interest Rate Derivatives   | October 24, 2010   |                  |
|-----------------------------|--------------------|------------------|
|                             | 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 |
| <b>Financial assets:</b>      |                  |            |                 |            |
| 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      |
| <b>Financial liabilities:</b> |                  |            |                 |            |
| 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     |

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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

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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:

| Type of Derivative Instrument | Three Months Ended  |                    | Six Months Ended    |                    |
|-------------------------------|---------------------|--------------------|---------------------|--------------------|
|                               | October 24,<br>2010 | October 25<br>2009 | October 24,<br>2010 | October 25<br>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.

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During January, 2010, we entered into an agreement to provide management services for a potential casino to be located at the Nemaconlin 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.

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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<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Balance Sheet</b>                      |   |                           |                                   |  |  |
| 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<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Balance Sheet</b>                      |   |                           |                                   |  |  |
| 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                                   |

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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):

| Statement of Operations                                      | For the Three Months Ended October 24, 2010           |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
|  | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| 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  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| 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                                     | 3,027   | 223,680                   | 1,996                             | (2,388)  | 226,315  |
| Operating income (loss)                                      | (2,042)   | 21,961                    | 417                               |  | 20,336   |
| Interest expense, net  | (7,556)   | (15,335)                  | (52)                              |  | (22,943)                                       |
| Other  | (743)   |                           |                                   |  | (743)  |
| Equity in income (loss) of subsidiaries                      | 4,883   | (639)                     |                                   | (4,244)  |  |
| Income (loss) from continuing operations before income taxes | (5,458)   | 5,987                     | 365                               | (4,244)  | (3,350)  |
| Income tax (provision) benefit                               | 3,645   | (2,233)                   | 125                               |  | 1,537  |
| Income (loss) from continuing operations                     | (1,813)   | 3,754                     | 490                               | (4,244)  | (1,813)  |
| Income (loss) from discontinued operations, net of tax       | 794   |                           |                                   |  | 794  |
| Net income (loss)  | \$ (1,019)  | \$ 3,754                  | \$ 490                            | \$ (4,244)                                     | \$ (1,019)                                     |

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| Statement of Operations                                      | For the Three Months Ended October 25, 2009           |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
|  | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| Casino   | \$  | \$ 251,173                | \$                                | \$   | \$ 251,173                                     |
| Pari-mutuel, rooms, food, beverage and other                 | 252   | 44,818                    | 2,419                             | (2,400)  | 45,089   |
| Gross revenues   | 252   | 295,991                   | 2,419                             | (2,400)  | 296,262  |
| Less promotional allowances                                  |   | (50,207)                  |                                   |  | (50,207)                                       |
| Net revenues   | 252   | 245,784                   | 2,419                             | (2,400)  | 246,055  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| Casino   |   | 39,651                    |                                   |  | 39,651   |
| Gaming taxes   |   | 64,223                    |                                   |  | 64,223   |
| Other operating expenses                                     | 11,373  | 94,346                    | (3,397)                           | (2,400)  | 99,922   |
| Management fee expense (revenue)                             | (6,312)   | 6,312                     |                                   |  |  |
| Depreciation and amortization                                | 1,102   | 27,183                    | 152                               |  | 28,437   |
| Total operating expenses                                     | 6,163   | 231,715                   | (3,245)                           | (2,400)  | 232,233  |
| Operating income (loss)                                      | (5,911)   | 14,069                    | 5,664                             |  | 13,822   |
| Interest expense, net  | (1,662)   | (15,747)                  | (79)                              |  | (17,488)                                       |
| Other  |   |                           |                                   |  |  |
| Equity in income (loss) of subsidiaries                      | 7,611   | (727)                     |                                   | (6,884)  |  |
| Income (loss) from continuing operations before income taxes | 38  | (2,405)                   | 5,585                             | (6,884)  | (3,666)  |
| Income tax (provision) benefit                               | 2,335   | 5,729                     | (2,025)                           |  | 6,039  |
| Income (loss) from continuing operations                     | 2,373   | 3,324                     | 3,560                             | (6,884)  | 2,373  |
| Income (loss) from discontinued operations, net of tax       | (811)   | (591)                     | (1,362)                           | 1,953  | (811)  |
| Net income (loss)  | \$ 1,562  | \$ 2,733                  | \$ 2,198                          | \$ (4,931)                                     | \$ 1,562                                       |

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For the Six Months Ended October 24, 2010

| Statement of Operations                                      | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
|--|---|---------------------------|-----------------------------------|--|--|
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| Casino   | \$  | \$ 513,802                | \$                                | \$   | \$ 513,802                                     |
| Pari-mutuel, rooms, food, beverage and other                 | 1,308   | 88,255                    | 4,957                             | (4,908)  | 89,612   |
| Gross revenues   | 1,308   | 602,057                   | 4,957                             | (4,908)  | 603,414  |
| Less promotional allowances                                  |   | (104,842)                 |                                   |  | (104,842)                                      |
| Net revenues   | 1,308   | 497,215                   | 4,957                             | (4,908)  | 498,572  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| Casino   |   | 79,588                    |                                   |  | 79,588   |
| Gaming taxes   |   | 124,620                   |                                   |  | 124,620  |
| Other operating expenses                                     | 22,501  | 185,175                   | 5,862                             | (4,908)  | 208,630  |
| Management fee expense (revenue)                             | (17,612)  | 17,612                    |                                   |  |  |
| Depreciation and amortization                                | 1,031   | 43,785                    | 296                               |  | 45,112   |
| Total operating expenses                                     | 5,920   | 450,780                   | 6,158                             | (4,908)  | 457,950  |
| Operating income (loss)                                      | (4,612)   | 46,435                    | (1,201)                           |  | 40,622   |
| Interest expense, net  | (15,501)  | (30,668)                  | (95)                              |  | (46,264)                                       |
| Other  | (2,230)   |                           |                                   |  | (2,230)  |
| Equity in income (loss) of subsidiaries                      | 9,717   | (1,284)                   |                                   | (8,433)  |  |
| Income (loss) from continuing operations before income taxes | (12,626)  | 14,483                    | (1,296)                           | (8,433)  | (7,872)  |
| Income tax (provision) benefit                               | 8,158   | (5,101)                   | 347                               |  | 3,404  |
| Income (loss) from continuing operations                     | (4,468)   | 9,382                     | (949)                             | (8,433)  | (4,468)  |
| Income (loss) from discontinued operations, net of tax       | 794   |                           |                                   |  | 794  |
| Net income (loss)  | \$ (3,674)  | \$ 9,382                  | \$ (949)                          | \$ (8,433)                                     | \$ (3,674)                                     |

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|  | For the Six Months Ended October 25, 2009             |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
| Statement of Operations                                      | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| Casino   | \$  | \$ 513,436                | \$                                | \$   | \$ 513,436                                     |
| Pari-mutuel, rooms, food, beverage and other                 | 364   | 91,243                    | 4,942                             | (4,904)  | 91,645   |
| Gross revenues   | 364   | 604,679                   | 4,942                             | (4,904)  | 605,081  |
| Less promotional allowances                                  |   | (101,112)                 |                                   |  | (101,112)                                      |
| Net revenues   | 364   | 503,567                   | 4,942                             | (4,904)  | 503,969  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| Casino   |   | 78,916                    |                                   |  | 78,916   |
| Gaming taxes   |   | 130,527                   |                                   |  | 130,527  |
| Other operating expenses                                     | 22,429  | 187,979                   | (2,004)                           | (4,904)  | 203,500  |
| Management fee expense (revenue)                             | (12,996)  | 12,996                    |                                   |  |  |
| Depreciation and amortization                                | 2,286   | 54,674                    | 305                               |  | 57,265   |
| Total operating expenses                                     | 11,719  | 465,092                   | (1,699)                           | (4,904)  | 470,208  |
| Operating income (loss)                                      | (11,355)  | 38,475                    | 6,641                             |  | 33,761   |
| Interest expense, net  | (3,373)   | (31,862)                  | (232)                             |  | (35,467)                                       |
| Equity in income (loss) of subsidiaries                      | 13,682  | (1,860)                   |                                   | (11,822)                                       |  |
| Income (loss) from continuing operations before income taxes | (1,046)   | 4,753                     | 6,409                             | (11,822)                                       | (1,706)  |
| Income tax (provision) benefit                               | 4,474   | 2,887                     | (2,227)                           |  | 5,134  |
| Income (loss) from continuing operations                     | 3,428   | 7,640                     | 4,182                             | (11,822)                                       | 3,428  |
| Income (loss) from discontinued operations, net of tax       | (961)   | (857)                     | (1,586)                           | 2,443  | (961)  |
| Net income (loss)  | \$ 2,467  | \$ 6,783                  | \$ 2,596                          | \$ (9,379)                                     | \$ 2,467                                       |

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Consolidating condensed statements of cash flows for the six months ended October 24, 2010 and October 25, 2009 are as follows (in thousands):

| Statement of Cash Flows  | Six Months Ended 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 |
| Net cash provided by (used in) operating activities                    | \$ (22,393)                                  | \$ 61,833              | \$ 9,292                   | \$                                    | \$ 48,732                                |
| Net cash provided by (used in) investing activities                    | (38,874)                                     | (98,302)               | (9,942)                    | 35,465                                | (111,653)                                |
| Net cash provided by (used in) financing activities                    | 59,306                                       | 43,109                 | (7,911)                    | (35,465)                              | 59,039                                   |
| Effect of foreign currency exchange rates on cash and cash equivalents |  |                        | (54)                       |                                       | (54)                                     |
| Net increase (decrease) in cash and cash equivalents                   | (1,961)                                      | 6,640                  | (8,615)                    |                                       | (3,936)                                  |
| Cash and cash equivalents at beginning of the period                   | 6,506  | 46,994                 | 14,569                     |                                       | 68,069                                   |
| Cash and cash equivalents at end of the period                         | \$ 4,545                                     | \$ 53,634              | \$ 5,954                   | \$                                    | \$ 64,133                                |

| Statement of Cash Flows  | Six Months Ended October 25, 2009            |                        |                            |                                       |  |
|--|--|------------------------|----------------------------|---------------------------------------|--|
|  | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| Net cash provided by (used in) operating activities                    | \$ (5,636)                                   | \$ 62,923              | \$ 3,436                   | \$                                    | \$ 60,723                                |
| Net cash provided by (used in) investing activities                    | 63,403                                       | (18,385)               | 125                        | (64,223)                              | (19,080)                                 |
| Net cash provided by (used in) financing activities                    | (62,021)                                     | (60,257)               | (4,221)                    | 64,223                                | (62,276)                                 |
| Effect of foreign currency exchange rates on cash and cash equivalents |  |                        | 35                         |                                       | 35                                       |
| Net increase (decrease) in cash and cash equivalents                   | (4,254)                                      | (15,719)               | (625)                      |                                       | (20,598)                                 |
| Cash and cash equivalents at beginning of the period                   | 8,776  | 68,681                 | 19,197                     |                                       | 96,654                                   |
| Cash and cash equivalents at end of the period                         | \$ 4,522                                     | \$ 52,962              | \$ 18,572                  | \$                                    | \$ 76,056                                |

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

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

*This report contains statements that we believe are, or may be considered to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as may, will, expect, intend, estimate, foresee, project, anticipate, believe, plans, forecasts, continue or could or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.*

For a more complete description of the risks that may affect our business, see our Annual Report on Form 10-K/A for the year ended April 25, 2010.

**Executive Overview**

We are a leading developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in regional markets in the United States. We have intentionally sought geographic diversity to limit the risks caused by weather, regional economic difficulties and local gaming authorities and regulations. We currently operate casinos in Mississippi, Louisiana, Missouri, Iowa, Colorado and Florida. We also operate a harness racing track at our casino in Florida.

Our operating results for the periods presented have been affected, both positively and negatively, by current economic conditions and several other factors discussed in detail below. Our historical operating results may not be indicative of our future results of operations because of these factors and the changing competitive landscape in each of our markets, as well as by factors discussed elsewhere herein. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K/A for the year ended April 25, 2010 and by giving consideration to the following:

*Acquisition of Rainbow Casino* - 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 acquisition was funded by borrowings from Isle's senior secured credit facility.



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*Florida Gaming Law Changes* Effective July 1, 2010, the state portion of gaming taxes applicable to our Pompano property was reduced from 50% to 35% of gaming revenues. Additionally, this legislation removed poker betting limits and allowed us to expand our poker hours from 12 hours per day to 18 hours per day Monday through Thursday and 24 hours per day on Friday through Sunday. Our casino revenues and gaming taxes reflect the favorable impact of these changes in state gaming laws.

*Expense Recoveries and Other Charges* During the three months ended October 25, 2009, we recorded an other expense recovery of \$6.8 million representing the discounted value of a receivable for reimbursement of development costs expensed in prior periods relating to a terminated plan to develop a casino in Pittsburgh, Pennsylvania.

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*Provision for Income Taxes* During the period ended October 24, 2010, we recognized a tax benefit of \$0.8 million in discontinued operations representing the resolution of previously unrecognized tax positions following the completion of certain federal tax reviews. During the period ended October 25, 2009, we recognized a benefit of \$4.7 million in our income tax provision, as we elected to settle certain state income tax matters with our actual settlement being less than our estimated accrued liability.

*Increased Competition* The opening of a new hotel in October 2009 by a competitor in Black Hawk, Colorado has had a negative impact on our Black Hawk, Colorado property.

*Discontinued Operations* Discontinued operations include the results of our international operations including our former Blue Chip, Grand Bahamas and Coventry casino operations. The sale of our Blue Chip and exit of our Grand Bahamas casino operations were substantially completed during November 2009. Our Coventry casino operations were sold and discontinued during the fourth quarter of fiscal year 2009.

### Revenues

Revenues for the three and six months ended October 24, 2010 and October 25, 2009 are as follows:

| (in thousands)                        | Three Months Ended  |                     | Variance | Percentage Variance |
|---------------------------------------|---------------------|---------------------|----------|---------------------|
|                                       | October 24,<br>2010 | October 25,<br>2009 |          |                     |
| <b>Revenues:</b>                      |                     |                     |          |                     |
| Casino                                | \$ 254,640          | \$ 251,173          | \$ 3,467 | 1.4%                |
| Rooms                                 | 10,643              | 11,803              | (1,160)  | -9.8%               |
| Pari-mutuel, food, beverage and other | 33,997              | 33,286              | 711      | 2.1%                |
| Gross revenues                        | 299,280             | 296,262             | 3,018    | 1.0%                |
| Less promotional allowances           | (52,629)            | (50,207)            | (2,422)  | 4.8%                |
| Net revenues                          | \$ 246,651          | \$ 246,055          | 596      | 0.2%                |

| (in thousands)                        | Six Months Ended    |                     | Variance | Percentage Variance |
|---------------------------------------|---------------------|---------------------|----------|---------------------|
|                                       | October 24,<br>2010 | October 25,<br>2009 |          |                     |
| <b>Revenues:</b>                      |                     |                     |          |                     |
| Casino                                | \$ 513,802          | \$ 513,436          | \$ 366   | 0.1%                |
| Rooms                                 | 21,524              | 24,064              | (2,540)  | -10.6%              |
| Pari-mutuel, food, beverage and other | 68,088              | 67,581              | 507      | 0.8%                |
| Gross revenues                        | 603,414             | 605,081             | (1,667)  | -0.3%               |
| Less promotional allowances           | (104,842)           | (101,112)           | (3,730)  | 3.7%                |
| Net revenues                          | \$ 498,572          | \$ 503,969          | (5,397)  | -1.1%               |

*Casino Revenues* - Casino revenues increased \$3.5 million, or 1.4%, and \$0.4 million, or 0.1%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in fiscal 2010.

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For the three months ended October 24, 2010, casino revenues increased \$2.6 million at our Pompano property, and included \$9.4 million from our newly acquired Vicksburg casino. These increases were offset by decreased casino revenues at our Black Hawk and Quad Cities properties of \$5.5 million reflecting the impact of competition and net decreases at our other properties of \$3.0 million primarily due to current economic conditions.

For the six months ended October 24, 2010, casino revenues increased \$6.1 million at our Pompano property, and included \$14.8 million from our newly acquired Vicksburg casino. These increases were offset by decreased casino revenues at our Black Hawk and Quad Cities properties of \$12.0 million reflecting the impact of competition and net decreases at our other properties of \$8.5 million primarily due to current economic conditions.

*Rooms Revenue* - Rooms revenue decreased \$1.2 million, or 9.8%, and \$2.5 million, or 10.6%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. The majority of this decrease

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has occurred at our Black Hawk property where we have experienced decline in both room rates and occupancy following the opening of a competitor's new hotel during October 2009.

*Pari-mutuel, Food, Beverage and Other Revenues* Pari-mutuel, food, beverage and other revenues increased \$0.7 million, or 2.1%, and \$0.5 million, or 0.8%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. Food, beverage and other revenues for the three and six months ended October 24, 2010 included \$0.6 million and \$1.0 million, respectively, from our recently acquired Vicksburg casino.

*Promotional Allowances* - Promotional allowances increased \$2.4 million, or 4.8%, and \$3.7 million, or 3.7%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. Promotional allowances for the three and six months ended October 24, 2010 included \$2.8 million and \$4.5 million, respectively, from our newly acquired Vicksburg casino. At our existing properties, changes in our promotional allowances reflect revisions to our marketing plans as a result of competitive factors, economic conditions and regulations.

*Operating Expenses*

Operating expenses for the three months ended October 24, 2010 and October 25, 2009 are as follows:

| (in thousands)                        | Three Months Ended |                  | Variance | Percentage Variance |
|---------------------------------------|--------------------|------------------|----------|---------------------|
|                                       | October 24, 2010   | October 25, 2009 |          |                     |
| Operating expenses:                   |                    |                  |          |                     |
| Casino                                | \$ 39,979          | \$ 39,651        | \$ 328   | 0.8%                |
| Gaming taxes                          | 60,214             | 64,223           | (4,009)  | -6.2%               |
| Rooms                                 | 2,725              | 2,824            | (99)     | -3.5%               |
| Pari-mutuel, food, beverage and other | 11,123             | 11,243           | (120)    | -1.1%               |
| Marine and facilities                 | 15,347             | 16,110           | (763)    | -4.7%               |
| Marketing and administrative          | 63,808             | 64,167           | (359)    | -0.6%               |
| Corporate and development             | 10,940             | 12,340           | (1,400)  | -11.3%              |
| Expense recoveries and other charges  |                    | (6,762)          | 6,762    | -100.0%             |
| Depreciation and amortization         | 22,179             | 28,437           | (6,258)  | -22.0%              |
| Total operating expenses              | \$ 226,315         | \$ 232,233       | (5,918)  | -2.5%               |

| (in thousands)                        | Six Months Ended |                  | Variance | Percentage Variance |
|---------------------------------------|------------------|------------------|----------|---------------------|
|                                       | October 24, 2010 | October 25, 2009 |          |                     |
| Operating expenses:                   |                  |                  |          |                     |
| Casino                                | \$ 79,588        | \$ 78,916        | \$ 672   | 0.9%                |
| Gaming taxes                          | 124,620          | 130,527          | (5,907)  | -4.5%               |
| Rooms                                 | 5,494            | 5,881            | (387)    | -6.6%               |
| Pari-mutuel, food, beverage and other | 22,291           | 22,085           | 206      | 0.9%                |
| Marine and facilities                 | 29,956           | 31,756           | (1,800)  | -5.7%               |
| Marketing and administrative          | 127,428          | 128,255          | (827)    | -0.6%               |
| Corporate and development             | 23,461           | 22,285           | 1,176    | 5.3%                |
| Expense recoveries and other charges  |                  | (6,762)          | 6,762    | -100.0%             |
| Depreciation and amortization         | 45,112           | 57,265           | (12,153) | -21.2%              |
| Total operating expenses              | \$ 457,950       | \$ 470,208       | (12,258) | -2.6%               |

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*Casino* - Casino operating expenses increased \$0.3 million, or 0.8%, and \$0.7 million, or 0.9%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. Excluding casino costs of \$1.2 million and \$2.0 million for the three and six months ended October 24, 2010, incurred by our recently acquired Vicksburg casino, our casino costs would have decreased \$0.9 million and \$1.3 million, respectively. This net decrease

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reflects costs reductions in casino expense at most of our properties offset by a slight increase in casino expenses at our Pompano property following the expansion of gaming hours effective July 1, 2010.

*Gaming Taxes* - State and local gaming taxes decreased \$4.0 million, or 6.2%, and \$5.9 million, or 4.5%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. Reductions in gaming taxes for the three months ended July 25, 2010 reflect the decrease in state gaming taxes at our Pompano facility from 50% to 35% effective July 1, 2010, decreases in our overall gaming revenues and changes in the mix of our gaming revenues derived from states with different gaming tax rates. Gaming taxes for the three and six months ended October 24, 2010 included \$0.8 million and \$1.3 million, respectively, from our newly acquired Vicksburg casino.

*Rooms* - Rooms expense decreased \$0.1 million, or 3.5%, and \$0.4 million, or 6.5%, for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. These expenses directly relate to the cost of providing hotel rooms. This decrease in rooms expense is reflective of an 9.8% and 10.6% reduction in our hotel revenues for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year.

*Pari-mutuel, Food, Beverage and Other* - Pari-mutuel, food, beverage and other expenses decreased \$0.1 million and increased \$0.2 million for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. Excluding food beverage and other costs of \$0.4 million and \$0.6 million for the three and six months ended October 24, 2010, incurred by our recently acquired Vicksburg casino, our food, beverage and other expenses would have increased \$0.1 million and \$0.2 million, respectively.

*Marine and Facilities* - Marine and facilities expenses decreased \$0.8 million, or 4.7%, and \$1.8 million, or 5.7% for the three and six months ended October 24, 2010, respectively, as compared to the same period in the prior fiscal year. This decrease includes reductions in facility costs across most properties as we continue to focus on cost reductions efforts. Marine and facility expense for the three and six months ended October 24, 2010 included \$0.4 million and \$0.6 million, respectively, from our newly acquired Vicksburg casino.

*Marketing and Administrative* - Marketing and administrative expenses decreased \$0.4 million, or 0.6%, and \$0.8 million, or 0.6%, for the three and six months ended October 24, 2010 as compared to the same period in the prior fiscal year. Excluding marketing and administrative costs of \$2.2 million and \$3.3 million for the three and six months ended October 24, 2010, incurred by our recently acquired Vicksburg casino, our marketing and administrative costs would have decreased \$2.6 million and \$4.1 million, respectively. These decreases reflect reductions in our operating cost to align such expenditures with changes in our net revenues.

*Corporate and Development* - During the three months ended October 24, 2010, our corporate and development expenses were \$10.9 million compared to \$12.3 million for the three months ended October 25, 2009. During the six months ended October 24, 2010, our corporate and development expenses were \$23.5 million compared to \$22.3 million for the six months ended October 25, 2009. The increase in corporate and development expenses for the six months ended October 24, 2010, reflects approximately \$1.1 million in expenses related to our attempted equity offering in June 2010, an additional \$1.1 million in acquisition related costs regarding the Rainbow acquisition, and \$1.7 million in development expenses, primarily offset by reductions in compensation expense.

*Depreciation and Amortization* - Depreciation and amortization expense for the three and six months ended October 24, 2010 decreased \$6.3 million and \$12.2 million, respectively, as compared to the same periods in the prior fiscal year, primarily due to certain assets becoming fully depreciated. Depreciation and amortization for the three and six months ended October 24, 2010 included \$1.3 million and \$1.9 million,

respectively, from our newly acquired Vicksburg casino.

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### *Other Income (Expense), Income Taxes, and Discontinued Operations*

Interest expense, interest income, income tax (provision) benefit, and income (loss) from discontinued operations, net of income taxes for the three and six months ended October 24, 2010 and October 25, 2009 are as follows:

| (in thousands)  | Three Months Ended  |                     | Variance   | Percentage<br>Variance |
|---|---------------------|---------------------|------------|------------------------|
|   | October 24,<br>2010 | October 25,<br>2009 |            |                        |
| Interest expense  | \$ (23,410)         | \$ (17,883)         | \$ (5,527) | 30.9%                  |
| Interest income   | 467                 | 395                 | 72         | 18.2%                  |
| Derivative income (expense)                                     | (743)               |                     | (743)      | N/M                    |
| Income tax benefit (provision)                                  | 1,537               | 6,039               | (4,502)    | -74.5%                 |
| Income (loss) from discontinued operations, net of income taxes | 794                 | (811)               | 1,605      | -197.9%                |

| (in thousands)  | Six Months Ended    |                     | Variance    | Percentage<br>Variance |
|---|---------------------|---------------------|-------------|------------------------|
|   | October 24,<br>2010 | October 25,<br>2009 |             |                        |
| Interest expense  | \$ (47,205)         | \$ (36,230)         | \$ (10,975) | 30.3%                  |
| Interest income   | 941                 | 763                 | 178         | 23.3%                  |
| Derivative income (expense)                                     | (2,230)             |                     | (2,230)     | N/M                    |
| Income tax benefit (provision)                                  | 3,404               | 5,134               | (1,730)     | -33.7%                 |
| Income (loss) from discontinued operations, net of income taxes | 794                 | (961)               | 1,755       | -182.6%                |

*Interest Expense* - Interest expense increased \$5.5 million and \$11.0 million, respectively, for the three and six months ended October 24, 2010, as compared to the same period in the prior fiscal year. This increase reflects the amendment of our senior credit facility during the fourth quarter of fiscal year 2010 which increased our interest rate on borrowings under the facility and additional interest on borrowings to fund our acquisition of the Vicksburg casino effective June 8, 2010.

*Derivative income (expense)* This includes expenses related to the change in fair value of our ineffective interest rate swaps. Our interest rate swaps became ineffective following the amendment of our senior secured credit facility during the fourth quarter of fiscal year 2010.

*Income Tax Benefit (Provision)* Our income tax benefit (provision) from continuing operations and our effective income tax rate has been impacted by our estimate of annual taxable income for financial statement purposes as well as our percentage of permanent and other items in relation to such estimated income or loss. During the prior fiscal year, our effective income tax rate was also impacted by our settlement of certain tax liabilities for \$4.7 million less than our estimated accrual.



## Liquidity and Capital Resources

*Cash Flows from Operating Activities* - During the six months ended October 24, 2010, we generated \$48.7 million in cash flows from operating activities compared to generating \$60.7 million during the six months ended October 25, 2009. The year over year decrease in cash flows from operating activities primarily results from decreases in operating income, exclusive of non-cash items, such as depreciation and expense recoveries.

*Cash Flows used in Investing Activities* - During the six months ended October 24, 2010, we used \$111.7 million for investing activities compared to using \$19.1 million during the six months ended October 25, 2009. Significant investing activities for the six months ended October 24, 2010 included the purchase of the Rainbow casino in Vicksburg, Mississippi for \$76.2 million, purchases of property and equipment of \$25.7 million and increases in restricted cash at our captive insurance company by \$9.5 million to fund insurance reserves in lieu of providing letters of credit.

For the six months ended October 25, 2009, significant investing activities included the purchase of property and equipment for \$15.3 million and payment of \$4.0 million towards our Waterloo gaming license.

*Cash Flows used in Financing Activities* - During the six months ended October 24, 2010 we had net borrowings under our line of credit of \$63.5 million which included the borrowing of \$80 million to fund our acquisition of the Rainbow casino in Vicksburg, Mississippi. We also used \$4.5 million to repay other outstanding long-term debt.

During the six months ended October 25, 2009, our net cash flows used in financing activities were used primarily to repay our outstanding long term debt of \$62.5 million.

*Availability of Cash and Additional Capital* - At October 24, 2010, we had cash and cash equivalents of \$64.1 million and marketable securities of \$23.0 million. As of October 24, 2010, we had \$85 million in revolving credit borrowings and \$813.1 million in term loans outstanding under the senior secured credit facility. Our line of credit availability at October 24, 2010 was approximately \$106 million as limited by our leverage ratio.

*Capital Expenditures and Development Activities* - 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.

Historically, we have made significant investments in property and equipment and expect that our operations will continue to demand ongoing investments to keep our properties competitive. Our current planned capital expenditures include \$22 million in maintenance capital expenditures and approximately \$10 million in expenditures related to Cape Girardeau for the balance of fiscal year 2011.

Typically, we have funded our daily operations through net cash provided by operating activities and our significant capital expenditures through operating cash flow and debt financing. While we believe that cash on hand, cash flow from operations, and available borrowings under our senior secured credit facility will be sufficient to support our working capital needs, planned capital expenditures and debt service requirements for the foreseeable future, there is no assurance that these sources will in fact provide adequate funding for our planned and necessary expenditures or that the level of our capital investments will be sufficient to allow us to remain competitive in our existing markets.

As part of our business development activities, historically we have entered into agreements which have resulted in the acquisition or development of businesses or assets. These business development efforts and related agreements typically require the expenditure of cash, which may be significant. The amount and timing of our cash expenditures relating to development activities may vary based upon our evaluation of current and future development opportunities, our financial condition and the condition of the financing markets. Our development activities are subject to a variety of factors including but not limited to: obtaining permits, licenses and approvals from appropriate regulatory and other agencies, legislative changes and, in certain circumstances, negotiating acceptable leases.

We have entered into an agreement to provide management services for a potential casino to be located at the Nemaquin 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 four 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 million.

We have identified several capital projects primarily focused on refreshing our hotel room inventory as well as additional improvements to our Black Hawk and Lake Charles properties, and further Lady Luck conversions. The timing and amount of these capital expenditures will be determined as we gain more clarity as to improvement of economic and local market conditions, cash flows from our continuing operations and availability of cash under our senior secured credit facility.

We are highly leveraged and may be unable to obtain additional debt or equity financing on acceptable terms if our current sources of liquidity are not sufficient or if we fail to stay in compliance with the covenants of our senior secured credit facility. We will continue to evaluate our planned capital expenditures at each of our existing locations in light of the operating performance of the facilities at such locations.

### **Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles that require our management to make estimates and assumptions that affect reported amounts and related disclosures. Management identifies critical accounting estimates as:

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made;
- those estimates where, had we chosen different estimates or assumptions, the resulting differences would have had a material impact on our financial condition, changes in financial condition or results of operations; and
- those estimates that, if they were to change from period to period, likely would result in a material impact on our financial condition, changes in financial condition or results of operations.

Accounting Standards Codification ( ASC ) Topic 350, Intangibles-Goodwill and Other, requires goodwill and other intangibles to be reviewed for impairment at least annually or on an interim basis if indicators of impairment exist. Goodwill for relevant reporting units is tested for impairment using a cash flow analysis based on forecasted future results discounted using our weighted average cost of capital and by using a market approach based upon valuation multiples for similar companies.

For a discussion of our significant accounting policies and estimates, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements presented in our 2010 Annual Report on Form 10-K/A. There were no newly identified significant accounting estimates in the second quarter of fiscal year 2011, nor were there any material changes to the critical accounting policies and estimates set forth in our 2010 Annual Report.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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Market risk is the risk of loss arising from adverse changes in market rates and prices, including interest rates, foreign currency exchange rates, commodity prices and equity prices. Our primary exposure to market risk is interest rate risk associated with our Isle of Capri Casinos, Inc. senior secured credit facility ( Credit Facility ).

We have entered into interest rate swap and cap arrangements with aggregate notional value of \$320 million as of October 24, 2010. The swap agreements effectively convert portions of the Credit Facility variable debt to a fixed-rate basis until the respective swap agreements terminate, which occurs during fiscal years 2011, 2012 and 2014. Our interest expense is impacted by the relationship between our Credit Facility variable rate debt and our interest rate derivatives, and as such, based on current debt levels, relative changes in future interest rates would impact future annual interest expense as follows:

| <b>Increase to<br/>variable rate</b> | <b>Increase/(decrease)<br/>(in millions)</b> |
|--------------------------------------|--|
| 1%                                   | \$ (2.0)                                     |
| 2%                                   | (1.4)  |
| 3%                                   | 5.2  |
| 4%                                   | 11.0   |
| 5%                                   | 16.8   |

**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on the evaluation, management has concluded that the design and operation of our disclosure controls and procedures are effective as of October 24, 2010.

Because of its inherent limitations, systems of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in our internal controls over financial reporting during the fiscal quarter ended October 24, 2010, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

A reference is made to the information contained in Footnote 11 of our unaudited condensed consolidated financial statements included herein, which is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

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There are no material changes to the disclosure regarding risk factors presented in our Annual Report on Form 10-K/A for the fiscal year ended April 25, 2010.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We have purchased our common stock under stock repurchase programs. These programs allow for the repurchase of up to 6,000,000 shares. To date, we have purchased 4,895,792 shares of our common stock under these programs. These programs have no approved dollar amount, nor expiration dates. No purchases were made during the six months ended October 24, 2010.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS SUBJECT TO A VOTE OF SECURITY HOLDERS**

Our Annual Meeting of Stockholders was held on October 5, 2010. The stockholders (1) elected nine members to the Company's Board of Directors to serve until the next Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified. In addition, the stockholders (2) ratified the Audit Committee's selection of Ernst & Young, LLP as the Company's independent registered public accounting firm for the 2011 fiscal year, approved the

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amendments to the Company's Certificate of Incorporation (3) to increase authorized common stock, (4) to provide more detail with respect to the powers of the Board of Directors in connection with issuing preferred stock, (5) to fix a range for the number of Directors, (6) with respect to filling vacancies on the Board of Directors, (7) with respect to indemnification of directors, officers, employees and agents, (8) with respect to calling of special meetings of stockholders, (9) with respect to the redemption of shares of a disqualified holder and (10) approved the adoption of the Amended and Restated Certificate of Incorporation.

1. The stockholders elected nine members to the Company's Board of Directors, with voting as follows:

| Election of Directors | Votes      |           |
|-----------------------|------------|-----------|
|                       | For        | Withheld  |
| W. Randolph Baker     | 23,962,449 | 1,396,082 |
| Alan J. Glazer        | 24,002,074 | 1,356,457 |
| Richard A. Goldstein  | 23,299,078 | 2,059,453 |
| Jeffrey D. Goldstein  | 23,299,070 | 2,059,461 |
| Robert S. Goldstein   | 23,300,395 | 2,058,136 |
| Shaun R. Hayes        | 23,982,475 | 1,376,056 |
| Gregory J. Kozicz     | 23,983,641 | 1,374,890 |
| James B. Perry        | 23,113,918 | 2,240,613 |
| Lee S. Wielansky      | 23,189,115 | 2,169,416 |

There were 5,186,800 broker non-votes.

2. The stockholders ratified the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2011 fiscal year, with voting as follows: 30,455,073 for, 84,642 against, 5,616 abstaining, 0 broker non-votes.

3. The stockholders approved the amendment to the Company's Certificate of Incorporation to increase authorized common stock, with voting as follows: 28,565,316 for, 1,940,330 against, 39,685 abstaining, 0 broker non-votes.

4. The stockholders approved the amendment to the Company's Certificate of Incorporation to provide more detail with respect to the powers of the Board of Directors in connection with issuing preferred stock, with voting as follows: 18,394,671 for, 6,933,329 against, 30,531 abstaining, 5,186,800 broker non-votes.

5. The stockholders approved the amendment to the Company's Certificate of Incorporation to fix a range for the number of Directors, with voting as follows: 28,955,460 for, 1,515,569 against, 74,302 abstaining, 0 broker non-votes.

6. The stockholders approved the amendment to the Company's Certificate of Incorporation with respect to filling vacancies on the Board of Directors, with voting as follows: 28,874,304 for, 1,581,252 against, 89,775 abstaining, 0 broker non-votes.

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7. The stockholders approved the amendment to the Company's Certificate of Incorporation with respect to indemnification of directors, officers, employees and agents, with voting as follows: 28,915,611 for, 1,549,813 against, 79,907 abstaining, 0 broker non-votes.
  
8. The stockholders approved the amendment to the Company's Certificate of Incorporation with respect to calling of special meetings of stockholders, with voting as follows: 28,920,856 for, 1,550,482 against, 73,993 abstaining, 0 broker non-votes.
  
9. The stockholders approved the amendment to the Company's Certificate of Incorporation with respect to the redemption of shares of a disqualified holder, with voting as follows: 19,231,727 for, 6,097,683 against, 29,121 abstaining, 5,186,800 broker non-votes.
  
10. The stockholders approved the adoption of the Amended and Restated Certificate of Incorporation, with voting as follows: 23,300,609 for, 7,174,080 against, 70,642 abstaining, 0 broker non-votes.



**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

See the Index to Exhibits following the signature page hereto for a list of the exhibits filed pursuant to Item 601 of Regulation S-K.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ISLE OF CAPRI CASINOS, INC.**

Dated: December 3, 2010

/s/ DALE R. BLACK  
Dale R. Black  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer and Authorized Officer)

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| <b>EXHIBIT<br/>NUMBER</b> | <b>DESCRIPTION</b>  |
|---------------------------|---|
| 3.1                       | Amended and Restated Certificate of Incorporation of Isle of Capri Casinos, Inc.  |
| 10.1                      | Isle of Capri Casinos, Inc. Corporate Level Incentive Compensation Plan   |
| 10.2                      | Development Agreement by and between IOC-Cape Girardeau, LLC and the City of Cape Girardeau, Missouri dated as of October 4, 2010 |
| 31.1                      | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934                     |
| 31.2                      | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934                     |
| 32.1                      | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350   |
| 32.2                      | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350   |