

ISLE OF CAPRI CASINOS INC  
Form 10-Q  
December 01, 2011

**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 23, 2011

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)

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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 November 29, 2011, the Company had a total of 38,982,281 shares of Common Stock outstanding (which excludes 3,083,867 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 23,<br>2011<br>(unaudited) | April 24,<br>2011 |
|---|------------------------------------|-------------------|
| <b><u>ASSETS</u></b>  |                                    |                   |
| Current assets:   |                                    |                   |
| Cash and cash equivalents   | \$ 66,207                          | \$ 75,178         |
| Marketable securities   | 27,106                             | 22,173            |
| Accounts receivable, net  | 8,588                              | 9,367             |
| Insurance receivable  | 8,158                              | 234               |
| Income taxes receivable   | 3,325                              | 3,866             |
| Deferred income taxes   | 11,573                             | 12,097            |
| Prepaid expenses and other assets   | 29,965                             | 25,444            |
| Total current assets  | 154,922                            | 148,359           |
| Property and equipment, net   | 1,107,159                          | 1,113,549         |
| Other assets:   |                                    |                   |
| Goodwill  | 345,303                            | 345,303           |
| Other intangible assets, net  | 79,783                             | 82,207            |
| Deferred financing costs, net   | 16,396                             | 18,911            |
| Restricted cash and investments   | 12,454                             | 12,810            |
| Prepaid deposits and other  | 9,815                              | 12,749            |
| Total assets  | \$ 1,725,832                       | \$ 1,733,888      |
| <b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>   |                                    |                   |
| Current liabilities:  |                                    |                   |
| Current maturities of long-term debt  | \$ 5,386                           | \$ 5,373          |
| Accounts payable  | 26,510                             | 26,013            |
| Accrued liabilities:  |                                    |                   |
| Payroll and related   | 41,353                             | 44,187            |
| Property and other taxes  | 24,611                             | 19,891            |
| Interest  | 8,610                              | 10,802            |
| Progressive jackpots and slot club awards   | 15,807                             | 15,280            |
| Other   | 32,378                             | 32,332            |
| Total current liabilities   | 154,655                            | 153,878           |
| Long-term debt, less current maturities   | 1,179,530                          | 1,187,221         |
| Deferred income taxes   | 28,260                             | 30,762            |
| Other accrued liabilities   | 36,186                             | 36,305            |
| Other long-term liabilities   | 16,626                             | 16,694            |
| 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: 42,066,148 at October 23, 2011 and 42,063,569 at April 24, 2011 | 421                                | 421               |
| Class B common stock, \$.01 par value; 3,000,000 shares authorized; none issued   |                                    |                   |
| Additional paid-in capital  | 249,342                            | 254,013           |
| Retained earnings   | 99,315                             | 103,095           |

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|  |              |              |
|--|--------------|--------------|
| Accumulated other comprehensive (loss) income  | (1,360)      | (2,235)      |
|  | 347,718      | 355,294      |
| Treasury stock, 3,083,867 shares at October 23, 2011 and 3,841,283 at April 24, 2011 | (37,143)     | (46,266)     |
| Total stockholders' equity   | 310,575      | 309,028      |
| Total liabilities and stockholders' equity   | \$ 1,725,832 | \$ 1,733,888 |

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 23,<br>2011 | October 24,<br>2010 | October 23,<br>2011 | October 24,<br>2010 |
| <b>Revenues:</b>   |                     |                     |                     |                     |
| Casino   | \$ 256,021          | \$ 254,640          | \$ 509,057          | \$ 513,802          |
| Rooms  | 10,460              | 10,643              | 21,404              | 21,524              |
| Food, beverage, pari-mutuel and other                    | 33,715              | 33,997              | 66,853              | 68,088              |
| Insurance recoveries                                     | 111                 |                     | 111                 |                     |
| Gross revenues   | 300,307             | 299,280             | 597,425             | 603,414             |
| Less promotional allowances                              | (52,836)            | (52,629)            | (104,147)           | (104,842)           |
| Net revenues   | 247,471             | 246,651             | 493,278             | 498,572             |
| <b>Operating expenses:</b>                               |                     |                     |                     |                     |
| Casino   | 41,869              | 39,979              | 81,905              | 79,588              |
| Gaming taxes   | 61,097              | 60,214              | 122,481             | 124,620             |
| Rooms  | 2,470               | 2,725               | 5,025               | 5,494               |
| Food, beverage, pari-mutuel and other                    | 10,559              | 11,123              | 21,727              | 22,291              |
| Marine and facilities                                    | 16,211              | 15,347              | 31,725              | 29,956              |
| Marketing and administrative                             | 64,966              | 63,808              | 129,130             | 127,428             |
| Corporate and development                                | 9,355               | 10,940              | 21,656              | 23,461              |
| Depreciation and amortization                            | 21,867              | 22,179              | 43,334              | 45,112              |
| Total operating expenses                                 | 228,394             | 226,315             | 456,983             | 457,950             |
| Operating income   | 19,077              | 20,336              | 36,295              | 40,622              |
| Interest expense   | (21,877)            | (23,410)            | (43,702)            | (47,205)            |
| Interest income  | 193                 | 467                 | 439                 | 941                 |
| Derivative income (expense)                              | 260                 | (743)               | 29                  | (2,230)             |
| Loss from continuing operations before income taxes      | (2,347)             | (3,350)             | (6,939)             | (7,872)             |
| Income tax benefit                                       | 890                 | 1,537               | 3,159               | 3,404               |
| Loss from continuing operations                          | (1,457)             | (1,813)             | (3,780)             | (4,468)             |
| Income from discontinued operations, net of income taxes |                     | 794                 |                     | 794                 |
| Net loss   | \$ (1,457)          | \$ (1,019)          | \$ (3,780)          | \$ (3,674)          |
| <b>Loss per common share-basic and dilutive:</b>         |                     |                     |                     |                     |
| Loss from continuing operations                          | \$ (0.04)           | \$ (0.06)           | \$ (0.10)           | \$ (0.14)           |
| Income from discontinued operations, net of income taxes |                     | 0.03                |                     | 0.03                |
| Net loss   | \$ (0.04)           | \$ (0.03)           | \$ (0.10)           | \$ (0.11)           |
| Weighted average basic shares                            | 38,753,049          | 32,783,726          | 38,515,099          | 32,615,815          |
| Weighted average diluted shares                          | 38,753,049          | 32,783,726          | 38,515,099          | 32,615,815          |

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 24, 2011  | 42,063,569                   | \$ 421          | \$ 254,013                       | \$ 103,095           | \$ (2,235)   | \$ (46,266)       | \$ 309,028                      |
| Net loss   |                              |                 |                                  | (3,780)              |  |                   | (3,780)                         |
| Deferred hedge adjustment, net of<br>income tax provision of \$503                       |                              |                 |                                  |                      | 836  |                   | 836                             |
| Unrealized gain on interest rate<br>cap contracts net of income tax<br>provision of \$23 |                              |                 |                                  |                      | 39   |                   | 39                              |
| Comprehensive loss   |                              |                 |                                  |                      |  |                   | (2,905)                         |
| Exercise of stock options  | 2,000                        |                 | 13                               |                      |  |                   | 13                              |
| Issuance of restricted stock from<br>common stock  | 579                          |                 |                                  |                      |  |                   |                                 |
| Issuance of restricted stock from<br>treasury stock                                      |                              |                 | (9,123)                          |                      |  | 9,123             |                                 |
| Stock compensation expense   |                              |                 | 4,439                            |                      |  |                   | 4,439                           |
| Balance, October 23, 2011  | 42,066,148                   | \$ 421          | \$ 249,342                       | \$ 99,315            | \$ (1,360)   | \$ (37,143)       | \$ 310,575                      |

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 23,<br>2011 | October 24,<br>2010 |
| <b>Operating activities:</b>  |                     |                     |
| Net loss  | \$ (3,780)          | \$ (3,674)          |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 43,334              | 45,112              |
| Amortization of deferred financing costs  | 2,909               | 1,642               |
| Amortization of debt discount   | (102)               |                     |
| Deferred income taxes   | (2,505)             | (3,537)             |
| Stock compensation expense  | 4,439               | 4,466               |
| (Gain) loss on derivative instruments   | (29)                | 2,230               |
| Loss (gain) on disposal of assets   | 46                  | (202)               |
| Changes in operating assets and liabilities, net of acquisition:                |                     |                     |
| Purchases of trading securities   | (4,933)             | (88)                |
| Accounts receivable   | 1,329               | 1,124               |
| Insurance receivable  | (7,924)             |                     |
| Income tax receivable   | 541                 | (741)               |
| Prepaid expenses and other assets   | (1,273)             | (2,065)             |
| Accounts payable and accrued liabilities  | 1,153               | 4,465               |
| Net cash provided by operating activities                                       | 33,205              | 48,732              |
| <b>Investing activities:</b>  |                     |                     |
| Purchase of property and equipment  | (34,326)            | (25,720)            |
| Net cash paid for acquisition, net of cash acquired                             |                     | (76,167)            |
| Restricted cash and investments   | 107                 | (9,766)             |
| Net cash used in investing activities   | (34,219)            | (111,653)           |
| <b>Financing activities:</b>  |                     |                     |
| Principal payments on debt  | (2,576)             | (4,464)             |
| Net (repayments) borrowings on line of credit                                   | (5,000)             | 63,500              |
| Payment of deferred financing costs   | (394)               |                     |
| Proceeds from exercise of stock options   | 13                  | 3                   |
| Net cash (used in) provided by financing activities                             | (7,957)             | 59,039              |
| <b>Effect of foreign currency exchange rates on cash</b>                        |                     |                     |
|   |                     | (54)                |
| Net decrease in cash and cash equivalents                                       | (8,971)             | (3,936)             |
| Cash and cash equivalents, beginning of period                                  | 75,178              | 68,069              |
| Cash and cash equivalents, end of the period                                    | \$ 66,207           | \$ 64,133           |

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 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. 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 for the year ended April 24, 2011 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 2012 is a 53-week year, which commenced on April 25, 2011, with the fourth quarter having 14 weeks. Fiscal 2011 was a 52-week year, which commenced on April 26, 2010.

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 such operating segments have been aggregated into one reporting segment.

**3. New Accounting Pronouncements**

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In September 2011, the Financial Accounting Standards Board, ( FASB ) issued Update No. 2011-08, Testing Goodwill for Impairment, which amends Accounting Standards Codification 350 Intangibles Goodwill and Other. This update permits entities to make a qualitative assessment of whether a reporting unit's fair value is, more likely than not, less than its carrying amount. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity is not required to perform the two-step impairment test for that reporting unit. The update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not expect the adoption to materially affect our consolidated financial statements.

In June 2011, the FASB issued Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which allows for the presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the guidance eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in

stockholders' equity. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011. While the adoption will impact where we disclose the components of other comprehensive income in our consolidated financial statements, we do not expect the adoption to have a material impact on those consolidated financial statements.

#### 4. Flooding

Flooding along the Mississippi River caused five of our properties to close for portions of the six months ended October 23, 2011. A summary of the closure dates and subsequent reopening is as follows:

|                          | Closing Date   | Reopening Date    | Number Days Closed |
|--------------------------|----------------|-------------------|--------------------|
| Davenport, Iowa          | April 15, 2011 | May 1, 2011       | 15 (A)             |
| Caruthersville, Missouri | May 1, 2011    | May 13, 2011      | 12                 |
| Lula, Mississippi        | May 3, 2011    | June 3, 2011      | 31                 |
|                          |                | September 2, 2011 | 91 (B)             |
| Natchez, Mississippi     | May 7, 2011    | June 17, 2011     | 41                 |
| Vicksburg, Mississippi   | May 11, 2011   | May 27, 2011      | 16                 |

(A) Six days of closure in the first quarter of fiscal 2012.

(B) The second casino barge reopened on September 2, 2011 after flood damage was remediated.

Operations were impacted beyond the number of days closed as business levels fluctuated before actual closure and for extended periods of time after reopening. We maintain insurance coverage subject to various deductibles for both property damage and business interruption. We have recorded a receivable of \$8,158 at October 23, 2011 representing direct reimbursable costs and property damage net of the insurance policy deductibles. During the three months ended October 23, 2011, we recognized \$111 of revenue as partial settlement of our business interruption claim related to our Davenport property. Any additional business interruption claims will be recognized in the periods settled.

#### 5. Long-Term Debt

Long-term debt consists of the following:

|   | October 23,<br>2011 | April 24,<br>2011 |
|---|---------------------|-------------------|
| Senior Secured Credit Facility:   |                     |                   |
| Revolving line of credit, expires November 1, 2013, interest payable at least quarterly at either LIBOR and/or prime plus a margin          | \$ 28,000           | \$ 33,000         |
| Variable rate term loans, mature November 1, 2013, principal and interest payments due quarterly at either LIBOR and/or prime plus a margin | 497,500             | 500,000           |

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|   |              |              |
|---|--------------|--------------|
| 7.75% Senior Notes, interest payable semi-annually March 15 and September 15, net of discount | 297,917      | 297,815      |
| 7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1          | 357,275      | 357,275      |
| Other   | 4,224        | 4,504        |
|   | 1,184,916    | 1,192,594    |
| Less current maturities   | 5,386        | 5,373        |
| Long-term debt  | \$ 1,179,530 | \$ 1,187,221 |

*Credit Facility* - Our Senior Secured Credit Facility as amended ( *Credit Facility* ) consists of a \$300,000 revolving line of credit and a \$500,000 term loan. The Credit Facility is secured on a first priority basis by substantially all of our assets and guaranteed by all of our significant domestic subsidiaries.

Our net line of credit availability at October 23, 2011, as limited by our maximum leverage covenant, was approximately \$145,000, after consideration of \$24,000 in outstanding surety bonds and letters of credit. We pay a commitment fee related to the unused portion of the Credit Facility of up to 0.625% 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 23, 2011 was 5.59%.

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 all covenants as of October 23, 2011.

*7.75% Senior Notes* In March 2011, we issued \$300,000 of 7.75% Senior Notes due 2019 at a price of 99.264% ( *Senior Notes* ). The net proceeds from the issuance were used to repay term loans under our Credit Facility. The Senior Notes are guaranteed, on a joint and several basis, by substantially all of our significant domestic subsidiaries and certain other subsidiaries as described in Note 14. All of the guarantor subsidiaries are wholly owned by us. The Senior Notes are general unsecured obligations and rank junior to all of our senior secured indebtedness and senior to our senior subordinated indebtedness. The Senior Notes are redeemable, in whole or in part, at our option at any time on or after March 15, 2015, with call premiums as defined in the indenture governing the Senior Notes.

*7% Senior Subordinated Notes* - Our 7% Senior Subordinated Notes are due 2014 ( *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 14. All of the guarantor subsidiaries are wholly owned by us. The Subordinated Notes are general unsecured obligations and rank junior to all of our senior indebtedness. The 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 Subordinated Notes.

The indenture governing the 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.

## 6. Earnings Per Share

The following table sets forth the computation of basic and diluted income (loss) per share:

|   | Three Months Ended  |                     | Six Months Ended    |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 23,<br>2011 | October 24,<br>2010 | October 23,<br>2011 | October 24,<br>2010 |
| <b>Numerator:</b>   |                     |                     |                     |                     |
| Income (loss) applicable to common shares:  |                     |                     |                     |                     |
| Loss from continuing operations   | \$ (1,457)          | \$ (1,813)          | \$ (3,780)          | \$ (4,468)          |
| Income from discontinued operations   |                     | 794                 |                     | 794                 |
| <b>Net loss</b>   | <b>\$ (1,457)</b>   | <b>\$ (1,019)</b>   | <b>\$ (3,780)</b>   | <b>\$ (3,674)</b>   |
| <b>Denominator:</b>   |                     |                     |                     |                     |
| Denominator for basic loss per share - weighted average shares                                    | 38,753,049          | 32,783,726          | 38,515,099          | 32,615,815          |
| Effect of dilutive securities Employee stock options  |                     |                     |                     |                     |
| Denominator for diluted loss per share - adjusted weighted average shares and assumed conversions | 38,753,049          | 32,783,726          | 38,515,099          | 32,615,815          |
| <b>Basic and Diluted loss per share:</b>  |                     |                     |                     |                     |
| Loss from continuing operations   | \$ (0.04)           | \$ (0.06)           | \$ (0.10)           | \$ (0.14)           |
| Income from discontinued operations   |                     | 0.03                |                     | 0.03                |
| <b>Net loss</b>   | <b>\$ (0.04)</b>    | <b>\$ (0.03)</b>    | <b>\$ (0.10)</b>    | <b>\$ (0.11)</b>    |

Our basic earnings (loss) per share are computed by dividing net loss by the weighted average number of shares outstanding for the period. Due to the loss from continuing operations, stock options representing 22,045 and 38,074 shares, which are potentially dilutive, and 1,169,710 and 1,069,710 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 23, 2011. 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.

## 7. Stock Based Compensation

Under our amended and restated Long Term Incentive Plans we have issued restricted stock and stock options.

**Restricted Stock** During the six months ended October 23, 2011, we issued 500,995 shares of restricted stock with a weighted average grant-date fair value of \$8.73 to employees and 257,003 shares of restricted stock with a weighted average grant-date fair value of \$5.37 to directors. Restricted stock awarded to employees under annual long-term incentive grants primarily vests one-third on each anniversary of the grant date and for directors vests one-half on the grant date and one-half on the first anniversary of the grant date. Restricted stock awarded under our October 2008 tender offer vested in October 2011. Our estimate of forfeitures for restricted stock for employees is 10%. No forfeiture rate is estimated for directors. As of October 23, 2011, our unrecognized compensation cost for unvested restricted stock is \$4,789 with a remaining weighted average vesting period of 1.4 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 7%. As of October 23, 2011, our unrecognized compensation cost for unvested stock options was \$423 with a weighted average vesting period of 1.7 years.

## 8. 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, in part, requirements under the Credit Facility. We have interest rate swap agreements with an aggregate notional value of \$100,000 with maturity dates in fiscal 2012 and 2014. We have also entered into interest rate cap contracts with an aggregate notional value of \$220,000 having maturity dates in fiscal 2012 and 2013 and paid premiums of \$203 at inception.

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

| Type of Derivative Instrument | Balance Sheet Location      | October 23, 2011 | April 24, 2011 |
|-------------------------------|-----------------------------|------------------|----------------|
| Interest rate cap contract    | Prepaid deposits and other  | \$ 3             | \$ 29          |
| Interest rate swap contracts  | Accrued interest            | 384              | 1,439          |
| Interest rate swap contracts  | Other long-term liabilities | 3,282            | 3,594          |

The interest rate cap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of October 23, 2011, 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) for our interest rate cap agreements is recorded net of deferred income tax benefits of \$26 and \$49 as of October 23, 2011 and April 24, 2011, respectively. The change in unrealized gain (loss) on our derivatives qualifying for hedge accounting was an immaterial amount and \$26 for the three and six months ended October 23, 2011, respectively. 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.

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. The cumulative loss recorded in other comprehensive income (loss) through the date of ineffectiveness is being 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 23, 2011, the weighted average fixed LIBOR interest rate of our interest rate swap agreements was 4.25%.

The loss recorded in other comprehensive income (loss) of our interest rate swap agreements is recorded net of deferred income tax benefits of \$793 and \$1,295, as of October 23, 2011 and April 24, 2011, respectively.

We recorded income of \$929 and \$1,367 in derivative income (expense) related to the change in fair value of interest rate swap contracts during the three and six months ended October 23, 2011, respectively. 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 23, 2011, we realized derivative expense of \$669 and \$1,338, respectively, associated with the amortization of \$418, net of taxes of \$252, and \$836, net of taxes of \$503, of cumulative loss recorded in other comprehensive income (loss) for the interest rate swaps through the date of their ineffectiveness. During the three and six months ended October 24, 2010, we realized derivative expense of \$3,182 and \$7,093 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 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 \$818, net of tax of \$492, as of October 23, 2011.

**9. Fair Value**

The fair value of our interest swap and cap contracts are recorded 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 23, 2011 and October 24, 2010:

|                             | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------------|--------------------|------------------|------------------|------------------|
|                             | October 23, 2011   | October 24, 2010 | October 23, 2011 | October 24, 2010 |
| <b>Interest Rate Hedges</b> |                    |                  |                  |                  |
| Beginning Balance           | \$ (4,592)         | \$ (10,524)      | \$ (5,004)       | \$ (12,927)      |
| Realized gains/(losses)     | 929                | 2,439            | 1,367            | 4,863            |
| Unrealized gains/(losses)   |                    | 25               | (26)             | 4                |
| Ending Balance              | \$ (3,663)         | \$ (8,060)       | \$ (3,663)       | \$ (8,060)       |

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

|                                 | October 23, 2011 |            | April 24, 2011  |            |
|---------------------------------|------------------|------------|-----------------|------------|
|                                 | Carrying Amount  | Fair Value | Carrying Amount | Fair Value |
| <b>Financial assets:</b>        |                  |            |                 |            |
| Cash and cash equivalents       | \$ 66,207        | \$ 66,207  | \$ 75,178       | \$ 75,178  |
| Marketable securities           | 27,106           | 27,106     | 22,173          | 22,173     |
| Restricted cash and investments | 12,454           | 12,454     | 12,810          | 12,810     |
| Notes receivable                | 2,906            | 2,906      | 3,788           | 3,788      |
| <b>Financial liabilities:</b>   |                  |            |                 |            |
| Revolving line of credit        | \$ 28,000        | \$ 25,480  | \$ 33,000       | \$ 31,350  |
| Variable rate term loans        | 497,500          | 498,122    | 500,000         | 505,000    |
| 7% Senior subordinated notes    | 357,275          | 337,625    | 357,275         | 358,615    |
| 7.75% Senior notes              | 297,917          | 281,532    | 297,815         | 305,055    |
| Other long-term debt            | 4,224            | 4,224      | 4,504           | 4,504      |
| Other long-term obligations     | 16,626           | 16,626     | 16,694          | 16,694     |

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:

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

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

The fair value of our long-term debt or other long-term obligations is estimated based on the quoted market price of the underlying debt issue or, when a quoted market price is not available, the discounted cash flow of future

payments utilizing current rates available to us for debt of similar remaining maturities. Debt obligations with a short remaining maturity are valued at the carrying amount.

#### 10. Accumulated Other Comprehensive Income (Loss)

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

|                              | October 23, 2011 | April 24, 2011 |
|------------------------------|------------------|----------------|
| Interest rate cap contracts  | \$ (43)          | \$ (82)        |
| Interest rate swap contracts | (1,317)          | (2,153)        |
|                              | \$ (1,360)       | \$ (2,235)     |

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 23,<br>2011 | October 24,<br>2010 | October 23,<br>2011 | October 24,<br>2010 |
| Interest rate cap contract    | \$ 34               | \$ (13)             | \$ 39               | \$ (26)             |
| Interest rate swap contracts  | 418                 | 1,992               | 836                 | 4,441               |
|                               | \$ 452              | \$ 1,979            | \$ 875              | \$ 4,415            |

#### 11. Income Taxes

Our effective income tax rates from continuing operations for the three and six months ended October 23, 2011 were 37.9% and 45.5%, respectively. 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 rate is based on statutory rates applied to our income adjusted for permanent differences. 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. During the six months ended October 23, 2011, the federal statute of limitations expired for the open tax years ending April 2006 and April 2007.

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.

#### 12. Supplemental Disclosures

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*Cash Flow* For the six months ended October 23, 2011 and October 24, 2010, we made net cash payments for interest of \$42,225 and \$46,372, respectively. Additionally, we made net income tax payments of \$371 during the six months ended October 23, 2011 and received net income tax refunds \$71 during the six months ended October 24, 2010.

For the six months ended October 23, 2011 and October 24, 2010, the change in accrued purchases of property and equipment in accounts payable increased by \$890 and \$2,231, respectively.

*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 pro forma results of operations, as if the acquisition of Rainbow had occurred on the first day of fiscal 2011, is as follows:

|  | <b>October 24, 2010</b> |
|--|-------------------------|
|  | <b>Six Months</b>       |
|  | <b>Ended</b>            |
| Pro forma  |                         |
| Net revenues   | \$ 502,388              |
| Income (loss) from continuing operations before income taxes | (7,757)                 |
| Net income (loss) from continuing operations                 | (4,396)                 |
| Basic and diluted loss per share from continuing operations  | (0.13)                  |

### 13. Commitments and Contingencies

*Development Projects* Construction is proceeding on time and on budget for our \$125,000 Isle Casino Cape Girardeau development. To date we have spent approximately \$26,800 in capital expenditures, including capitalized interest, and expect the facility to be completed by December 2012.

On April 14, 2011, the Nemacolin Woodlands Resort ( Nemacolin ) in Farmington, Pennsylvania was selected by the Pennsylvania Gaming Control Board for the final Category 3 resort gaming license. We had previously entered into an agreement with Nemacolin to complete the build-out of the casino space and provide management services of the casino. We currently estimate the project cost at approximately \$50,000. The award of the Pennsylvania license to Nemacolin has been appealed to the Pennsylvania Supreme Court by one of the other applicants. Subject to a successful ruling in the appeal, we expect to complete construction of the facility within approximately nine months after commencing construction.

*Legal and Regulatory Proceedings* Our wholly owned subsidiary, Lady Luck Gaming Corporation 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 February 2012.

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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 23, 2011, we have accrued an estimated liability including interest of \$12,256. 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.



We and our wholly-owned subsidiary, Riverboat Corporation of Mississippi ( RCM ), are defendants in a lawsuit filed in the Circuit Court of Adams County, Mississippi by Silver Land, Inc., alleging breach of contract in connection with our 2006 sale of casino operations in Vicksburg, Mississippi, to a third party. In January 2011, the court ruled in favor of Silver Land and in September 2011 the court awarded damages of \$1,979. We filed a notice of appeal in November 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 by Silver Land in this matter.

We are subject to certain federal, state and local environmental protection, health and safety laws, regulations and ordinances that apply to businesses generally, and are subject to cleanup requirements at certain of our facilities as a result thereof. We have not made, and do not anticipate making material expenditures, nor do we anticipate incurring delays with respect to environmental remediation or protection. However, in part because our present and future development sites have, in some cases, been used as manufacturing facilities or other facilities that generate materials that are required to be remediated under environmental laws and regulations, there can be no guarantee that additional pre-existing conditions will not be discovered and 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.

*Other* On June 13, 2011, we granted an option agreement to a third party for the sale of certain assets used at our Lake Charles, Louisiana property. We recently reached an agreement with the buyer which extends their period to exercise the option until December 30, 2011 from November 30, 2011. If the option is exercised, we expect to finalize the transaction within 30 days after exercise. Upon closing the transaction, we will continue to operate our Lake Charles hotel and land-based operations and consolidate our gaming operations onto one gaming vessel.

**14. 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 7.75% Senior Notes and 7% Senior Subordinated Notes.

The following wholly owned subsidiaries of the Company are guarantors, on a joint and several basis, under the 7.75% Senior Notes and 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, LLC.; IOC-Vicksburg, Inc.; IOC-Vicksburg, LLC; Rainbow Casino Vicksburg Partnership, L.P.; IOC Cape Girardeau, LLC; 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.

Consolidating condensed balance sheets as of October 23, 2011 and April 24, 2011 are as follows (in thousands):

|   | As of October 23, 2011                       |                        |                            |                                       |  |
|---|--|------------------------|----------------------------|---------------------------------------|--|
|   | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Balance Sheet</b>                      |  |                        |                            |                                       |  |
| Current assets                            | \$ 39,299                                    | \$ 86,626              | \$ 34,070                  | \$ (5,073)                            | \$ 154,922                               |
| Intercompany receivables                  | 995,685                                      | (205,335)              | (52,582)                   | (737,768)                             |  |
| Investments in subsidiaries               | 424,197                                      | (65,610)               | (37)                       | (358,550)                             |  |
| Property and equipment, net               | 9,532  | 1,065,373              | 32,254                     |                                       | 1,107,159                                |
| Other assets                              | 65,377                                       | 437,168                | 16,904                     | (55,698)                              | 463,751                                  |
| Total assets                              | \$ 1,534,090                                 | \$ 1,318,222           | \$ 30,609                  | \$ (1,157,089)                        | \$ 1,725,832                             |
| Current liabilities                       | \$ 38,820                                    | \$ 86,897              | \$ 34,011                  | \$ (5,073)                            | \$ 154,655                               |
| Intercompany payables                     |  | 737,768                |                            | (737,768)                             |  |
| Long-term debt, less current maturities   | 1,175,692                                    | 3,293                  | 545                        |                                       | 1,179,530                                |
| Other accrued liabilities                 | 9,003  | 113,844                | 13,923                     | (55,698)                              | 81,072                                   |
| Stockholders equity                       | 310,575                                      | 376,420                | (17,870)                   | (358,550)                             | 310,575                                  |
| Total liabilities and stockholders equity | \$ 1,534,090                                 | \$ 1,318,222           | \$ 30,609                  | \$ (1,157,089)                        | \$ 1,725,832                             |

|                             | As of April 24, 2011                         |                        |                            |                                       |  |
|-----------------------------|--|------------------------|----------------------------|---------------------------------------|--|
|                             | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Balance Sheet</b>        |  |                        |                            |                                       |  |
| Current assets              | \$ 28,886                                    | \$ 87,650              | \$ 32,274                  | \$ (451)                              | \$ 148,359                               |
| Intercompany receivables    | 1,020,593                                    | (226,226)              | (56,599)                   | (737,768)                             |  |
| Investments in subsidiaries | 418,767                                      | (65,229)               | (37)                       | (353,501)                             |  |
| Property and equipment, net | 10,215                                       | 1,071,415              | 31,919                     |                                       | 1,113,549                                |
| Other assets                | 63,889                                       | 441,794                | 20,002                     | (53,705)                              | 471,980                                  |
| Total assets                | \$ 1,542,350                                 | \$ 1,309,404           | \$ 27,559                  | \$ (1,145,425)                        | \$ 1,733,888                             |

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|  |    |           |    |           |    |          |    |             |    |           |
|--|----|-----------|----|-----------|----|----------|----|-------------|----|-----------|
| Current liabilities                        | \$ | 40,714    | \$ | 84,565    | \$ | 29,050   | \$ | (451)       | \$ | 153,878   |
| Intercompany payables                      |    |           |    | 737,768   |    |          |    | (737,768)   |    |           |
| Long-term debt, less current maturities    |    | 1,183,091 |    | 3,517     |    | 613      |    |             |    | 1,187,221 |
| Other accrued liabilities                  |    | 9,517     |    | 114,205   |    | 13,744   |    | (53,705)    |    | 83,761    |
| Stockholders' equity                       |    | 309,028   |    | 369,349   |    | (15,848) |    | (353,501)   |    | 309,028   |
| Total liabilities and stockholders' equity | \$ | 1,542,350 | \$ | 1,309,404 | \$ | 27,559   | \$ | (1,145,425) | \$ | 1,733,888 |

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Consolidating condensed statements of operations for the three and six month periods ended October 23, 2011 and October 24, 2010 are as follows (in thousands):

|   | For the Three Months Ended October 23, 2011           |                           |                                   |  |  |
|---|---|---------------------------|-----------------------------------|--|--|
|   | 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>Statement of Operations</b>                                  |   |                           |                                   |  |  |
| Revenues:   |   |                           |                                   |  |  |
| Casino  | \$  | \$ 256,021                | \$                                | \$   | \$ 256,021                                     |
| Rooms, food, beverage, pari-mutuel<br>and other                 | 140   | 43,822                    | 2,571                             | (2,247)  | 44,286   |
| Gross revenues  | 140   | 299,843                   | 2,571                             | (2,247)  | 300,307  |
| Less promotional allowances                                     |   | (52,836)                  |                                   |  | (52,836)                                       |
| Net revenues  | 140   | 247,007                   | 2,571                             | (2,247)  | 247,471  |
| Operating expenses:   |   |                           |                                   |  |  |
| Casino  |   | 41,869                    |                                   |  | 41,869   |
| Gaming taxes  |   | 61,097                    |                                   |  | 61,097   |
| Other operating expenses  | 8,947   | 94,234                    | 2,627                             | (2,247)  | 103,561  |
| Management fee expense (revenue)                                | (8,707)   | 8,707                     |                                   |  |  |
| Depreciation and amortization                                   | 569   | 21,160                    | 138                               |  | 21,867   |
| Total operating expenses  | 809   | 227,067                   | 2,765                             | (2,247)  | 228,394  |
| Operating income (loss)   | (669)   | 19,940                    | (194)                             |  | 19,077   |
| Interest expense, net   | (6,341)   | (15,188)                  | (155)                             |  | (21,684)                                       |
| Derivative income   | 260   |                           |                                   |  | 260  |
| Equity in income (loss) of<br>subsidiaries                      | 2,832   | (72)                      |                                   | (2,760)  |  |
| Income (loss) from continuing<br>operations before income taxes | (3,918)   | 4,680                     | (349)                             | (2,760)  | (2,347)  |
| Income tax (provision) benefit                                  | 2,461   | (1,702)                   | 131                               |  | 890  |
| Income (loss) from continuing<br>operations                     | (1,457)   | 2,978                     | (218)                             | (2,760)  | (1,457)  |
| Income (loss) from discontinued<br>operations, net of tax       |   |                           |                                   |  |  |
| Net income (loss)   | \$ (1,457)  | \$ 2,978                  | \$ (218)                          | \$ (2,760)                                     | \$ (1,457)                                     |

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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>Statement of Operations</b>                                  |   |                           |                                   |  |  |
| Revenues:   |   |                           |                                   |  |  |
| Casino  | \$  | \$ 254,640                | \$                                | \$   | \$ 254,640                                     |
| Rooms, food, beverage, pari-mutuel<br>and other                 | 985   | 43,630                    | 2,413                             | (2,388)  | 44,640   |
| Gross revenues  | 985   | 298,270                   | 2,413                             | (2,388)  | 299,280  |
| Less promotional allowances                                     |   | (52,629)                  |                                   |  | (52,629)                                       |
| Net revenues  | 985   | 245,641                   | 2,413                             | (2,388)  | 246,651  |
| Operating expenses:   |   |                           |                                   |  |  |
| Casino  |   | 39,979                    |                                   |  | 39,979   |
| Gaming taxes  |   | 60,214                    |                                   |  | 60,214   |
| Other operating expenses  | 11,476  | 93,003                    | 1,852                             | (2,388)  | 103,943  |
| Management fee expense (revenue)                                | (8,900)   | 8,900                     |                                   |  |  |
| Depreciation and amortization                                   | 451   | 21,584                    | 144                               |  | 22,179   |
| Total operating expenses  | 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)                                       |
| Derivative expense  | (743)   |                           |                                   |  | (743)  |
| Equity in income (loss) of<br>subsidiaries                      | 4,883   | (639)                     |                                   | (4,244)  |  |
| Income (loss) from continuing<br>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<br>operations                     | (1,813)   | 3,754                     | 490                               | (4,244)  | (1,813)  |
| Income (loss) from discontinued<br>operations, net of tax       | 794   |                           |                                   |  | 794  |
| Net income (loss)   | \$ (1,019)  | \$ 3,754                  | \$ 490                            | \$ (4,244)                                     | \$ (1,019)                                     |

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|   | For the Six Months Ended October 23, 2011             |                           |                                   |  |  |
|---|---|---------------------------|-----------------------------------|--|--|
|   | 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>Statement of Operations</b>                                  |   |                           |                                   |  |  |
| Revenues:   |   |                           |                                   |  |  |
| Casino  | \$  | \$                        | 509,057                           | \$   | \$ 509,057                                     |
| Rooms, food, beverage, pari-mutuel<br>and other                 | 291   | 87,736                    | 4,991                             | (4,650)  | 88,368   |
| Gross revenues  | 291   | 596,793                   | 4,991                             | (4,650)  | 597,425  |
| Less promotional allowances                                     |   | (104,147)                 |                                   |  | (104,147)                                      |
| Net revenues  | 291   | 492,646                   | 4,991                             | (4,650)  | 493,278  |
| Operating expenses:   |   |                           |                                   |  |  |
| Casino  |   | 81,905                    |                                   |  | 81,905   |
| Gaming taxes  |   | 122,481                   |                                   |  | 122,481  |
| Other operating expenses  | 21,836  | 187,670                   | 4,407                             | (4,650)  | 209,263  |
| Management fee expense (revenue)                                | (17,331)  | 17,331                    |                                   |  |  |
| Depreciation and amortization                                   | 1,002   | 42,056                    | 276                               |  | 43,334   |
| Total operating expenses  | 5,507   | 451,443                   | 4,683                             | (4,650)  | 456,983  |
| Operating income (loss)   | (5,216)   | 41,203                    | 308                               |  | 36,295   |
| Interest expense, net   | (12,828)  | (30,148)                  | (287)                             |  | (43,263)                                       |
| Derivative income   | 29  |                           |                                   |  | 29   |
| Equity in income (loss) of<br>subsidiaries                      | 5,129   | (389)                     |                                   | (4,740)  |  |
| Income (loss) from continuing<br>operations before income taxes | (12,886)  | 10,666                    | 21                                | (4,740)  | (6,939)  |
| Income tax (provision) benefit                                  | 9,106   | (3,905)                   | (2,042)                           |  | 3,159  |
| Income (loss) from continuing<br>operations                     | (3,780)   | 6,761                     | (2,021)                           | (4,740)  | (3,780)  |
| Income (loss) from discontinued<br>operations, net of tax       |   |                           |                                   |  |  |
| Net income (loss)   | \$ (3,780)  | \$ 6,761                  | \$ (2,021)                        | \$ (4,740)                                     | \$ (3,780)                                     |

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For the Six 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>Statement of Operations</b>                                  |   |                           |                                   |  |  |
| Revenues:   |   |                           |                                   |  |  |
| Casino  | \$  | \$ 513,802                | \$                                | \$   | \$ 513,802                                     |
| Rooms, food, beverage, pari-mutuel<br>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  |
| Operating expenses:   |   |                           |                                   |  |  |
| 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)                                       |
| Derivative expense  | (2,230)   |                           |                                   |  | (2,230)  |
| Equity in income (loss) of<br>subsidiaries                      | 9,717   | (1,284)                   |                                   | (8,433)  |  |
| Income (loss) from continuing<br>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<br>operations                     | (4,468)   | 9,382                     | (949)                             | (8,433)  | (4,468)  |
| Income (loss) from discontinued<br>operations, net of tax       | 794   |                           |                                   |  | 794  |
| Net income (loss)   | \$ (3,674)  | \$ 9,382                  | \$ (949)                          | \$ (8,433)                                     | \$ (3,674)                                     |

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Consolidating condensed statements of cash flows for the six months ended October 23, 2011 and October 24, 2010 are as follows (in thousands):

|  | Six Months Ended October 23, 2011                     |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
|  | 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>Statement of Cash Flows</b>   |   |                           |                                   |  |  |
| Net cash provided by (used in) operating activities                    | \$ (13,036)   | \$ 45,046                 | \$ 1,195                          | \$   | \$ 33,205                                      |
| Net cash provided by (used in) investing activities                    | 24,482  | (32,762)                  | (1,030)                           | (24,909)                                       | (34,219)                                       |
| Net cash provided by (used in) financing activities                    | (7,677)   | (21,106)                  | (4,083)                           | 24,909   | (7,957)  |
| Effect of foreign currency exchange rates on cash and cash equivalents |   |                           |                                   |  |  |
| Net increase (decrease) in cash and cash equivalents                   | 3,769   | (8,822)                   | (3,918)                           |  | (8,971)  |
| Cash and cash equivalents at beginning of the period                   | 3,952   | 62,105                    | 9,121                             |  | 75,178   |
| Cash and cash equivalents at end of the period                         | \$ 7,721  | \$ 53,283                 | \$ 5,203                          | \$   | \$ 66,207                                      |

|  | Six 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>Statement of Cash Flows</b>   |   |                           |                                   |  |  |
| 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                                      |



**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 for the fiscal year ended April 24, 2011.

**Executive Overview**

We are a developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in regional markets in the United States. We have 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 facility in Florida.

Our operating results for the periods presented have been affected, both positively and negatively, by fluctuating 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 for the fiscal year ended April 24, 2011 and by giving consideration to the following:

*Flooding* Flooding along the Mississippi River caused five of our properties to close for portions of the six months ended October 23, 2011. We maintain insurance coverage subject to various deductibles for both property damage and business interruption. Recognition of business interruption recoveries is contingent upon filing and settlement of our insurance claims. A summary of the closure dates and subsequent reopening dates is as follows:



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|                          | Closing Date   | Reopening Date    | Number Days Closed |
|--------------------------|----------------|-------------------|--------------------|
| Davenport, Iowa          | April 15, 2011 | May 1, 2011       | 15 (A)             |
| Caruthersville, Missouri | May 1, 2011    | May 13, 2011      | 12                 |
| Lula, Mississippi        | May 3, 2011    | June 3, 2011      | 31                 |
| Natchez, Mississippi     | May 7, 2011    | September 2, 2011 | 91 (B)             |
| Vicksburg, Mississippi   | May 11, 2011   | June 17, 2011     | 41                 |
|                          |                | May 27, 2011      | 16                 |

(A) Six days of closure in the first quarter of fiscal 2012.

(B) The second casino barge reopened on September 2, 2011 after flood damage was remediated.

*Florida Gaming Law Changes* Effective July 1, 2010, legislative changes became effective in Florida which lowered the state portion of gaming taxes applicable to our Pompano property from 50% to 35% of gaming revenues. Additionally, this legislation allows our poker operations to remain open for the same hours as the slot floor and removes the poker betting limits. Our casino revenues and gaming taxes reflect the favorable impact of these changes in state gaming laws.

*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 our Credit Facility.

*Discontinued Operations* During the three months ended October 24, 2010, we recognized a tax benefit in discontinued operations of \$0.8 million related to the resolution of previously unrecognized tax positions related to our discontinued former UK operations.

*Revenues*

Revenues for the three and six month periods ended October 23, 2011 and October 24, 2010 are as follows:

| (in thousands)                        | Three Months Ended |                  | Variance | Percentage Variance |
|---------------------------------------|--------------------|------------------|----------|---------------------|
|                                       | October 23, 2011   | October 24, 2010 |          |                     |
| Revenues:                             |                    |                  |          |                     |
| Casino                                | \$ 256,021         | \$ 254,640       | \$ 1,381 | 0.5%                |
| Rooms                                 | 10,460             | 10,643           | (183)    | -1.7%               |
| Food, beverage, pari-mutuel and other | 33,715             | 33,997           | (282)    | -0.8%               |
| Insurance recoveries                  | 111                |                  | 111      | 100.0%              |
| Gross revenues                        | 300,307            | 299,280          | 1,027    | 0.3%                |
| Less promotional allowances           | (52,836)           | (52,629)         | (207)    | 0.4%                |
| Net revenues                          | \$ 247,471         | \$ 246,651       | \$ 820   | 0.3%                |

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| (in thousands)                        | Six Months Ended    |                     | Variance   | Percentage<br>Variance |
|---------------------------------------|---------------------|---------------------|------------|------------------------|
|                                       | October 23,<br>2011 | October 24,<br>2010 |            |                        |
| <b>Revenues:</b>                      |                     |                     |            |                        |
| Casino                                | \$ 509,057          | \$ 513,802          | \$ (4,745) | -0.9%                  |
| Rooms                                 | 21,404              | 21,524              | (120)      | -0.6%                  |
| Food, beverage, pari-mutuel and other | 66,853              | 68,088              | (1,235)    | -1.8%                  |
| Insurance recoveries                  | 111                 |                     | 111        | 100.0%                 |
| Gross revenues                        | 597,425             | 603,414             | (5,989)    | -1.0%                  |
| Less promotional allowances           | (104,147)           | (104,842)           | 695        | -0.7%                  |
| Net revenues                          | \$ 493,278          | \$ 498,572          | (5,294)    | -1.1%                  |

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*Casino Revenues* - Casino revenues increased \$1.4 million, or 0.5%, and decreased \$4.7 million, or 0.9% for the three and six months ended October 23, 2011, as compared to the same period in fiscal 2011.

For the three months ended October 23, 2011, casino revenues increased at our Pompano and Lake Charles properties by \$3.6 million and \$1.1 million, respectively, reflecting increased marketing activities. Casino revenues increased at our Black Hawk properties by \$1.8 million in response to renovations to our casino floor, poker room and additional amenities. These increases were partially offset by decreases of \$1.7 million at our Lula property due to slow recovery from flooding and general market conditions, \$2.1 million at our Quad Cities properties reflecting increased competition and limited property access due to road construction in Davenport and \$1.1 million at our Biloxi property primarily due to current economic conditions.

For the six months ended October 23, 2011, casino revenues for our properties not closed due to flooding increased \$9.6 million, or 2.4%, as compared to the same period in fiscal 2011. This included increased casino revenues of \$5.5 million at our Pompano property, \$3.9 million at our Black Hawk properties and \$2.7 at our Lake Charles property partially offset by decreases of \$1.8 million at our Bettendorf property and \$1.3 million at our Biloxi property.

*Rooms Revenue* - Rooms revenue remained flat for the three and six months ended October 23, 2011, as compared to the same period in the prior fiscal year. Rooms revenue for our properties not closed due to flooding increased \$0.4 million, or 2.2% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011.

*Food, Beverage, Pari-Mutuel and Other Revenues* - Food, beverage, pari-mutuel and other revenues decreased \$0.3 million, or 0.8%, and \$1.2 million, or 1.8% for the three and six months ended October 23, 2011, as compared to the same period in the fiscal 2011. Food, beverage, pari-mutuel and other revenue for our properties not closed due to flooding decreased \$0.2 million, or 0.4% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011 reflecting reductions in complimentary food and beverage offerings to our customers.

*Promotional Allowances* - Promotional allowances decreased \$0.2 million, or 0.4%, and increased \$0.7 million, or 0.7% for the three and six months ended October 23, 2011, as compared to the same period in fiscal 2011. Promotional allowances for our properties not closed due to flooding increased \$1.2 million, or 1.5% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011. Changes in our promotional allowances reflect revisions to our marketing plans as a result of changes in competition, economic conditions and regulations.

### *Operating Expenses*

Operating expenses for the three and six month periods ended October 23, 2011 and October 24, 2010 are as follows:

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| (in thousands)                        | Three Months Ended |                  | Variance | Percentage Variance |
|---------------------------------------|--------------------|------------------|----------|---------------------|
|                                       | October 23, 2011   | October 24, 2010 |          |                     |
| Operating expenses:                   |                    |                  |          |                     |
| Casino                                | \$ 41,869          | \$ 39,979        | \$ 1,890 | 4.7%                |
| Gaming taxes                          | 61,097             | 60,214           | 883      | 1.5%                |
| Rooms                                 | 2,470              | 2,725            | (255)    | -9.4%               |
| Food, beverage, pari-mutuel and other | 10,559             | 11,123           | (564)    | -5.1%               |
| Marine and facilities                 | 16,211             | 15,347           | 864      | 5.6%                |
| Marketing and administrative          | 64,966             | 63,808           | 1,158    | 1.8%                |
| Corporate and development             | 9,355              | 10,940           | (1,585)  | -14.5%              |
| Depreciation and amortization         | 21,867             | 22,179           | (312)    | -1.4%               |
| Total operating expenses              | \$ 228,394         | \$ 226,315       | \$ 2,079 | 0.9%                |

| (in thousands)                        | Six Months Ended |                  | Variance | Percentage Variance |
|---------------------------------------|------------------|------------------|----------|---------------------|
|                                       | October 23, 2011 | October 24, 2010 |          |                     |
| Operating expenses:                   |                  |                  |          |                     |
| Casino                                | \$ 81,905        | \$ 79,588        | \$ 2,317 | 2.9%                |
| Gaming taxes                          | 122,481          | 124,620          | (2,139)  | -1.7%               |
| Rooms                                 | 5,025            | 5,494            | (469)    | -8.5%               |
| Food, beverage, pari-mutuel and other | 21,727           | 22,291           | (564)    | -2.5%               |
| Marine and facilities                 | 31,725           | 29,956           | 1,769    | 5.9%                |
| Marketing and administrative          | 129,130          | 127,428          | 1,702    | 1.3%                |
| Corporate and development             | 21,656           | 23,461           | (1,805)  | -7.7%               |
| Depreciation and amortization         | 43,334           | 45,112           | (1,778)  | -3.9%               |
| Total operating expenses              | \$ 456,983       | \$ 457,950       | \$ (967) | -0.2%               |

*Casino* - Casino operating expenses increased \$1.9 million, or 4.7%, and \$2.3 million, or 2.9% for the three and six months ended October 23, 2011, as compared to the same period in fiscal 2011. Casino operating expense for our properties not closed due to flooding increased \$2.4 million, or 3.8% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011. Net increases in casino expenses reflect increased casino revenues at our properties not impacted by flooding.

*Gaming Taxes* - State and local gaming taxes increased \$0.9 million, or 1.5%, and decreased \$2.1 million, or 1.7% for the three and six months ended October 23, 2011, as compared to the same period in fiscal 2011. Changes in our overall gaming taxes reflect our overall gaming revenues and changes in the mix of our gaming revenues derived from states with differing gaming tax rates.

*Rooms* - Rooms expense decreased \$0.3 million, or 9.4%, and \$0.5 million, or 8.5% for the three and six ended October 23, 2011, as compared to the same periods in fiscal 2011. Rooms expense for our properties not closed due to flooding decreased \$0.3 million, or 6.3% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011.

*Food, Beverage, Pari-Mutuel and Other* - Food, beverage, pari-mutuel and other expenses decreased \$0.6 million, or 5.1%, and \$0.6 million, or 2.5% for the three and six months ended October 23, 2011, as compared to the same periods in fiscal 2011. Food, beverage, pari-mutuel and other expenses for our properties not closed due to flooding decreased \$0.3 million, or 1.5% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011.



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*Marine and Facilities* - Marine and facility expenses increased \$0.9 million, or 5.6%, and \$1.8 million, or 5.9% for the three and six months ended October 23, 2011, as compared to the same periods in fiscal 2011. Marine and facility expenses for our properties not closed due to flooding increased \$1.8 million, or 7.8% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011. The overall increase in marine and facilities reflect increased spending for repairs and maintenance.

*Marketing and Administrative* - Marketing and administrative expenses increased \$1.2 million, or 1.8%, and \$1.7 million, or 1.3% for the three and six months ended October 23, 2011, as compared to the same period in fiscal 2011. Marketing and administrative expenses for our properties not closed due to flooding increased \$2.0 million, or 2.0% for the six months ended October 23, 2011, as compared to the same period in fiscal 2011. These increases reflect additional marketing expenditures designed to increase market share and customer visits.

*Corporate and Development* - During the three months ended October 23, 2011, our corporate and development expenses were \$9.4 million compared to \$10.9 million for the three months ended October 24, 2010, primarily as a result of the timing of long-term incentive compensation awards and development costs in the prior year. During the six months ended October 23, 2011, our corporate and development expenses were \$21.7 million compared to \$23.5 million for the six months ended October 24, 2010, primarily as a result of acquisition, refinancing and development costs in the prior year.

*Depreciation and Amortization* - Depreciation and amortization expense for the three and six months ended October 23, 2011 decreased \$0.3 million and \$1.8 million, respectively, as compared to the same periods in the prior fiscal year, primarily due to certain assets becoming fully depreciated.

### *Other Income (Expense) and Income Taxes*

Interest expense, interest income, derivative expense and income tax (provision) benefit for the three and six month periods ended October 23, 2011 and October 24, 2010 are as follows:

| (in thousands)   | Three Months Ended  |                     | Variance | Percentage Variance |
|--|---------------------|---------------------|----------|---------------------|
|  | October 23,<br>2011 | October 24,<br>2010 |          |                     |
| Interest expense   | \$ (21,877)         | \$ (23,410)         | \$ 1,533 | -6.5%               |
| Interest income  | 193                 | 467                 | (274)    | -58.7%              |
| Derivative income (expense)                              | 260                 | (743)               | 1,003    | -135.0%             |
| Income tax benefit                                       | 890                 | 1,537               | (647)    | -42.1%              |
| Income from discontinued operations, net of income taxes |                     | 794                 | (794)    | N/M                 |

| (in thousands)   | Six Months Ended    |                     | Variance | Percentage Variance |
|------------------|---------------------|---------------------|----------|---------------------|
|                  | October 23,<br>2011 | October 24,<br>2010 |          |                     |
| Interest expense | \$ (43,702)         | \$ (47,205)         | \$ 3,503 | -7.4%               |
| Interest income  | 439                 | 941                 | (502)    | -53.3%              |



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|  |       |         |       |         |
|--|-------|---------|-------|---------|
| Derivative income (expense)                              | 29    | (2,230) | 2,259 | -101.3% |
| Income tax benefit                                       | 3,159 | 3,404   | (245) | -7.2%   |
| Income from discontinued operations, net of income taxes |       | 794     | (794) | N/M     |

*Interest Expense* - Interest expense decreased \$3.5 million for the six months ended October 23, 2011, as compared to the same period in the prior fiscal year. This decrease primarily reflects the expiration of several interest rate swap agreements during fiscal 2011, which had notional rates above current market rates.

*Derivative Expense* This includes expenses related to the change in fair value of our ineffective interest rate swaps and amortization of the cumulative loss in other comprehensive income at the date of ineffectiveness. Our

interest rate swaps became ineffective following the amendment of our senior secured credit facility during the fourth quarter of fiscal year 2010. The increase for the six months ended October 23, 2011 compared to the same period in the prior fiscal year reflects the maturity of certain interest rate swap agreements.

*Income Tax Benefit (Provision)* Our income tax benefit (provision) from continuing operations and our effective income tax rate has been impacted our estimate of annual taxable income for financial statement purposes, our percentage of permanent and other items in relation to such estimated income or loss, as well as the expiration of federal statute of limitations on open tax years ending in April 2006 and April 2007.

## **Liquidity and Capital Resources**

*Cash Flows from Operating Activities* - During the six months ended October 23, 2011, we generated \$33.2 million in cash flows from operating activities compared to generating \$48.7 million during the six months ended October 24, 2010. The year over year decrease in cash flows from operating activities is primarily the result of cash payments for flood related costs, which will be reimbursed in future periods and \$4.9 million increase in purchases of trading securities during fiscal 2012.

*Cash Flows used in Investing Activities* - During the six months ended October 23, 2011, we used \$34.2 million for investing activities compared to using \$111.7 million during the six months ended October 24, 2010. Significant investing activities for the six months ended October 23, 2011 included capital expenditures of \$34.3 million, including \$12.4 million relating to Cape Girardeau and Nemaquin. 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, net of cash acquired and purchase price adjustments, purchases of property and equipment of \$25.7 million and increases in restricted cash at our captive insurance company by \$9.8 million to fund insurance reserves in lieu of providing letters of credit.

*Cash Flows used in Financing Activities* During the six months ended October 23, 2011, our net cash flows used in financing activities were used primarily to repay our outstanding long-term debt of \$7.6 million. 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, and also used \$4.5 million to repay other outstanding long-term debt.

*Availability of Cash and Additional Capital* - At October 23, 2011, we had cash and cash equivalents of \$66.2 million and marketable securities of \$27.1 million. As of October 23, 2011, we had \$28 million in revolving credit and \$497.5 million in term loans outstanding under the senior secured credit facility. Our line of credit availability at October 23, 2011 was approximately \$145 million as limited by our leverage ratio.

*Capital Expenditures and Development Activities* 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.

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Construction is proceeding on time and on budget for our \$125 million Isle Casino Cape Girardeau development. We continue to anticipate opening by December 2012 and expect to include 1,000 slot machines, 28 table games, three restaurants, a lounge and terrace overlooking the Mississippi River and a 750-seat event center. At October 23, 2011, we have incurred capital expenditures, including capitalized interest, of \$26.8 million including current year capital expenditures of \$11.8 million. We estimate additional capital expenditures of approximately \$30 million in Cape Girardeau during the balance of the current fiscal year.

On April 14, 2011, our proposed casino in Nemaquin, Pennsylvania was selected by the Pennsylvania Gaming Control Board to receive the final resort gaming license in Pennsylvania. We have entered into a development and management agreement with Nemaquin Woodlands Resort to build and operate a casino which is expected to include approximately 600 slot machines and 28 table games. We currently estimate the project cost at

approximately \$50 million. The award of the Pennsylvania license to Nemaquin has been appealed to the Pennsylvania Supreme Court by one of the other applicants. Subject to a successful ruling in the appeal, we expect to complete construction of the facility within approximately nine months after commencing construction. The timing of additional significant expenditures is dependent upon resolution of the items discussed above.

We have identified several capital projects primarily focused on refreshing our hotel room inventory as well as additional improvements to our Lake Charles and Black Hawk properties, and further Lady Luck conversions. The timing, completion and amount of additional capital projects will be subject to improvement of economic and local market conditions, cash flows from our continuing operations and borrowing availability under our Credit Facility.

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. During the six months ended October 23, 2011, we have incurred capital expenditures at our existing properties of \$22.5 million. For the balance of the current fiscal year, we estimate maintenance capital expenditures at our existing properties to be approximately \$30 million.

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, proceeds from our equity offering completed in the fourth quarter of fiscal 2011, cash flow from operations, and available borrowings under our 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.

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

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- 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.

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 2011 Annual Report on Form 10-K. There were no newly identified significant accounting estimates in the second quarter of fiscal year 2012, nor were there any material changes to the critical accounting policies and estimates set forth in our 2011 Annual Report.

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

Market risk is the risk of loss arising from adverse changes in market rates and prices, including interest 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 \$320.0 million as of October 23, 2011. 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 2012, 2013 and 2014.

**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 23, 2011.

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 23, 2011, 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 13 of our unaudited condensed consolidated financial statements included herein, which is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

We are not aware of any material changes to the disclosure regarding risk factors presented in our Annual Report on Form 10-K for the fiscal year ended April 24, 2011.

**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 23, 2011.

**ITEM 3.                   DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.                   [REMOVED AND RESERVED]**

**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 1, 2011

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

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| <b>EXHIBIT<br/>NUMBER</b> | <b>DESCRIPTION</b>   |
|---------------------------|--|
| 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.   |
| 101                       | The following financial statements and notes from the Isle of Capri Casinos, Inc. Quarterly Report on Form 10-Q for the quarter ended October 23, 2011, filed on December 1, 2011, formatted in XBRL: (i) Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Stockholders Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. |