

ISLE OF CAPRI CASINOS INC  
Form 10-Q  
March 05, 2010

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

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended January 24, 2010

OR

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

For the transition period from            to

Commission File Number 0-20538

**ISLE OF CAPRI CASINOS, INC.**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**600 Emerson Road, Suite 300, Saint Louis, Missouri**  
(Address of principal executive offices)

**63141**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of March 3, 2010, the Company had a total of 32,445,488 shares of Common Stock outstanding (which excludes 4,326,242 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)

|  | January 24,<br>2010<br>(unaudited) | April 26,<br>2009 |
|--|------------------------------------|-------------------|
| <b><u>ASSETS</u></b>   |                                    |                   |
| Current assets:  |                                    |                   |
| Cash and cash equivalents  | \$ 72,536                          | \$ 96,654         |
| Marketable securities  | 20,050                             | 17,548            |
| Accounts receivable, net   | 8,462                              | 11,935            |
| Income taxes receivable  | 5,141                              | 7,744             |
| Deferred income taxes  | 13,233                             | 16,295            |
| Prepaid expenses and other assets  | 29,772                             | 23,234            |
| Assets held for sale   |                                    | 4,183             |
| Total current assets   | 149,194                            | 177,593           |
| Property and equipment, net  | 1,117,227                          | 1,177,540         |
| Other assets:  |                                    |                   |
| Goodwill   | 313,136                            | 313,136           |
| Other intangible assets, net   | 80,653                             | 83,588            |
| Deferred financing costs, net  | 7,579                              | 9,314             |
| Restricted cash  | 2,774                              | 2,774             |
| Prepaid deposits and other   | 22,605                             | 18,717            |
| Total assets   | \$ 1,693,168                       | \$ 1,782,662      |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                         |                                    |                   |
| Current liabilities:   |                                    |                   |
| Current maturities of long-term debt                                       | \$ 8,750                           | \$ 9,688          |
| Accounts payable   | 24,643                             | 16,246            |
| Accrued liabilities:   |                                    |                   |
| Interest   | 22,208                             | 9,280             |
| Payroll and related  | 41,600                             | 47,209            |
| Property and other taxes   | 21,015                             | 31,487            |
| Other  | 43,708                             | 52,195            |
| Liabilities related to assets held for sale                                |                                    | 1,888             |
| Total current liabilities  | 161,924                            | 167,993           |
| Long-term debt, less current maturities                                    | 1,223,277                          | 1,291,384         |
| Deferred income taxes  | 20,232                             | 24,970            |
| Other accrued liabilities  | 38,729                             | 52,575            |
| Other long-term liabilities  | 17,486                             | 17,314            |
| Stockholders' equity:  |                                    |                   |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued | 368                                | 361               |

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Common stock, \$.01 par value; 45,000,000 shares authorized; shares issued: 36,768,397 at January 24, 2010 and 36,111,089 at April 26, 2009

Class B common stock, \$.01 par value; 3,000,000 shares authorized; none issued

|   |              |              |
|---|--------------|--------------|
| Additional paid-in capital  | 199,862      | 193,827      |
| Retained earnings   | 93,670       | 101,828      |
| Accumulated other comprehensive (loss) income   | (10,273)     | (15,191)     |
|   | 283,627      | 280,825      |
| Treasury stock, 4,326,242 shares at January 24, 2010 and 4,340,436 shares at April 26, 2009 | (52,107)     | (52,399)     |
| Total stockholders' equity  | 231,520      | 228,426      |
| Total liabilities and stockholders' equity  | \$ 1,693,168 | \$ 1,782,662 |

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  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | January 24,<br>2010 | January 25,<br>2009 | January 24,<br>2010 | January 25,<br>2009 |
| <b>Revenues:</b>   |                     |                     |                     |                     |
| Casino   | \$ 229,520          | \$ 246,717          | \$ 742,957          | \$ 769,931          |
| Rooms  | 8,424               | 9,216               | 32,488              | 35,696              |
| Pari-mutuel, food, beverage and other  | 31,240              | 32,240              | 98,821              | 101,147             |
| Hurricane insurance recoveries   |                     | 60,000              |                     | 60,000              |
| Gross revenues   | 269,184             | 348,173             | 874,266             | 966,774             |
| Less promotional allowances  | (42,199)            | (46,354)            | (143,525)           | (143,628)           |
| Net revenues   | 226,985             | 301,819             | 730,741             | 823,146             |
| <b>Operating expenses:</b>   |                     |                     |                     |                     |
| Casino   | 36,472              | 37,382              | 115,474             | 112,370             |
| Gaming taxes   | 60,529              | 63,335              | 191,056             | 196,839             |
| Rooms  | 2,192               | 2,624               | 7,939               | 9,206               |
| Pari-mutuel, food, beverage and other  | 10,717              | 12,011              | 33,126              | 37,903              |
| Marine and facilities  | 14,392              | 15,319              | 46,148              | 48,202              |
| Marketing and administrative   | 62,082              | 62,457              | 189,849             | 189,633             |
| Corporate and development  | 11,127              | 9,039               | 33,412              | 32,570              |
| Hurricane insurance recoveries   |                     | (32,179)            |                     | (32,179)            |
| Expense recoveries and other charges, net  |                     |                     | (6,762)             | 6,000               |
| Depreciation and amortization  | 26,798              | 29,847              | 84,062              | 92,339              |
| Total operating expenses   | 224,309             | 199,835             | 694,304             | 692,883             |
| Operating income   | 2,676               | 101,984             | 36,437              | 130,263             |
| Interest expense   | (17,452)            | (24,400)            | (53,682)            | (72,522)            |
| Interest income  | 454                 | 725                 | 1,218               | 1,620               |
| <b>Income (loss) from continuing operations</b>  |                     |                     |                     |                     |
| before income taxes  | (14,322)            | 78,309              | (16,027)            | 59,361              |
| Income tax benefit (provision)   | 2,922               | (30,044)            | 8,056               | (23,682)            |
| Income (loss) from continuing operations   | (11,400)            | 48,265              | (7,971)             | 35,679              |
| Income (loss) from discontinued operations,<br>including loss on sale, net of income taxes | 775                 | (2,152)             | (187)               | (6,692)             |
| Net income (loss)  | \$ (10,625)         | \$ 46,113           | \$ (8,158)          | \$ 28,987           |
| <b>Earnings (loss) per common share-basic:</b>   |                     |                     |                     |                     |
| Income (loss) from continuing operations   | \$ (0.35)           | \$ 1.52             | \$ (0.25)           | \$ 1.14             |
| Income (loss) from discontinued operations,<br>including loss on sale, net of income taxes | 0.02                | (0.07)              |                     | (0.21)              |
| Net income (loss)  | \$ (0.33)           | \$ 1.45             | \$ (0.25)           | \$ 0.93             |
| <b>Earnings (loss) per common share-diluted:</b>   |                     |                     |                     |                     |
| Income (loss) from continuing operations   | \$ (0.35)           | \$ 1.52             | \$ (0.25)           | \$ 1.14             |
| Income (loss) from discontinued operations,<br>including loss on sale, net of income taxes | 0.02                | (0.07)              |                     | (0.21)              |
| Net income (loss)  | \$ (0.33)           | \$ 1.45             | \$ (0.25)           | \$ 0.93             |

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|                                 |            |            |            |            |
|---------------------------------|------------|------------|------------|------------|
| Weighted average basic shares   | 32,438,809 | 31,765,365 | 32,179,233 | 31,240,008 |
| Weighted average diluted shares | 32,438,809 | 31,765,365 | 32,179,233 | 31,248,402 |

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 26, 2009  | 36,111,089                   | \$ 361          | \$ 193,827                       | \$ 101,828           | \$ (15,191)  | \$ (52,399)       | \$ 228,426                      |
| Net loss   |                              |                 |                                  | (8,158)              |  |                   | (8,158)                         |
| Unrealized gain on interest<br>rate swap contracts net of<br>income taxes of \$2,735 |                              |                 |                                  |                      | 4,569  |                   | 4,569                           |
| Foreign currency<br>translation adjustments  |                              |                 |                                  |                      | 349  |                   | 349                             |
| Comprehensive loss   |                              |                 |                                  |                      |  |                   | (3,240)                         |
| Issuance of restricted stock,<br>net of forfeitures                                  | 635,042                      | 7               | (7)                              |                      |  |                   |                                 |
| Exercise of stock options  | 21,602                       |                 | 204                              |                      |  |                   | 204                             |
| Issuance of deferred bonus<br>shares   | 664                          |                 | (292)                            |                      |  | 292               |                                 |
| Stock compensation<br>expense  |                              |                 | 6,055                            |                      |  |                   | 6,055                           |
| Other  |                              |                 | 75                               |                      |  |                   | 75                              |
| Balance, January 24, 2010  | 36,768,397                   | \$ 368          | \$ 199,862                       | \$ 93,670            | \$ (10,273)  | \$ (52,107)       | \$ 231,520                      |

See notes to the condensed consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|  | Nine Months Ended   |                     |
|--|---------------------|---------------------|
|  | January 24,<br>2010 | January 25,<br>2009 |
| <b>Operating activities:</b>   |                     |                     |
| Net income (loss)  | \$ (8,158)          | \$ 28,987           |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization  | 84,062              | 95,988              |
| Amortization of deferred financing costs   | 1,735               | 1,922               |
| Property insurance proceeds - Hurricane Katrina, net                                     |                     | (32,179)            |
| Valuation charges and other  | (6,762)             | 5,000               |
| Deferred income taxes  | (4,409)             | 23,709              |
| Stock compensation expense   | 6,055               | 7,840               |
| Deferred compensation expense  | 72                  | (851)               |
| Loss (gain) on disposal of assets  | 696                 | (144)               |
| Changes in operating assets and liabilities, net of dispositions:                        |                     |                     |
| Sales (purchases) of trading securities  | (2,502)             | 2,562               |
| Accounts receivable  | 6,608               | 8,969               |
| Income tax receivable  | 2,603               | 18,675              |
| Prepaid expenses and other assets  | (3,123)             | 500                 |
| Accounts payable and accrued liabilities   | (7,103)             | (10,035)            |
| Net cash provided by operating activities  | 69,774              | 150,943             |
| <b>Investing activities:</b>   |                     |                     |
| Purchase of property and equipment   | (21,577)            | (45,626)            |
| Payments towards gaming license  | (4,000)             | (4,000)             |
| Proceeds from sale of assets held for sale   | 653                 |                     |
| Property insurance proceeds - Hurricane Katrina, net                                     |                     | 32,179              |
| Decrease in restricted cash  | (12)                | (33,159)            |
| Net cash used in investing activities  | (24,936)            | (50,606)            |
| <b>Financing activities:</b>   |                     |                     |
| Principal payments on debt   | (6,591)             | (7,403)             |
| Net payments on line of credit   | (62,558)            | (2,453)             |
| Proceeds from exercise of stock options  | 204                 | 110                 |
| Net cash used in financing activities  | (68,945)            | (9,746)             |
| <b>Effect of foreign currency exchange rates on cash</b>                                 |                     |                     |
|  | (11)                | (668)               |
| Net increase (decrease) in cash and cash equivalents                                     | (24,118)            | 89,923              |
| Cash and cash equivalents, beginning of period   | 96,654              | 91,790              |
| Cash and cash equivalents, end of the period   | \$ 72,536           | \$ 181,713          |

See notes to the condensed consolidated financial statements.





**ISLE OF CAPRI CASINOS, INC.**

**Notes to Condensed Consolidated Financial Statements**

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

*(Unaudited)*

**1. Nature of Operations**

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

**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. In the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented, have been made. 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 26, 2009 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 2010 and 2009 are both 52-week years, which commenced on April 27, 2009 and April 28, 2008, respectively.

Discontinued operations include our former Blue Chip casinos in Dudley and Wolverhampton, England, sold in November 2009, our former casino in Freeport, Grand Bahamas, exited in November 2009 and our former casino in Coventry, England sold in fiscal year 2009.

The 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.

The Company evaluated all subsequent events through the date the consolidated financial statements were issued. On February 17, 2010, we entered into a First Amendment to our Credit Agreement as described in Note 4. No other material subsequent events have occurred since January 24, 2010 that required recognition or disclosure in the consolidated financial statements.

### 3. Discontinued Operations

Discontinued operations include the results of our Blue Chip casino properties in Dudley and Wolverhampton, England sold in November 2009, our Freeport, Grand Bahamas casino property exited in November 2009, and our Coventry, England, sold in April 2009.

The results of our discontinued operations are summarized as follows:

|   | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | January 24,<br>2010 | January 25,<br>2009 | January 24,<br>2010 | January 25,<br>2009 |
| Net revenues                                    | \$ 1,106            | \$ 6,357            | \$ 7,403            | \$ 21,475           |
| Pretax loss from discontinued operations        | (716)               | (2,754)             | (2,300)             | (10,189)            |
| Income tax benefit from discontinued operations | 1,491               | 602                 | 2,113               | 3,497               |
| Income (loss) from discontinued operations      | 775                 | (2,152)             | (187)               | (6,692)             |

Net interest income of \$4 and \$6 for the three and nine months ended January 24, 2010, respectively, and net interest expense of \$445 and \$1,655 for the three and nine months ended January 25, 2009, respectively, has been allocated to discontinued operations and was based on long-term debt and other long-term obligations specific to our discontinued operations as such entities are not guarantors under our senior secured credit facility. During the third quarter ended January 24, 2010, we recorded a loss on sale of discontinued operations of \$624.

### 4. Long-Term Debt

Long-term debt consists of the following:

|  | January 24,<br>2010 | April 26,<br>2009 |
|--|---------------------|-------------------|
| Senior Secured Credit Facilities:  |                     |                   |
| July 2007 Credit Facility:   |                     |                   |
| Revolving line of credit, expires July 26, 2012, interest payable at least quarterly at either LIBOR and/or prime plus a margin              | \$ 50,500           | \$ 112,000        |
| Variable rate term loans, mature November 25, 2013, principal and interest payments due quarterly at either LIBOR and/or prime plus a margin | 819,355             | 825,651           |
| Senior Subordinated Notes:   |                     |                   |
| 7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1   | 357,275             | 357,275           |
| Other  | 4,897               | 6,146             |
|  | 1,232,027           | 1,301,072         |
| Less current maturities  | 8,750               | 9,688             |
| Long-term debt   | \$ 1,223,277        | \$ 1,291,384      |

*July 2007 Credit Facility* - During 2007, we entered into a \$1,350,000 senior secured credit facility ( *Credit Facility* ), which is secured on a first priority basis by substantially all of our assets and guaranteed by all of our significant domestic subsidiaries. As of January 24, 2010, the Credit

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Facility consists of a \$475,000 five-year revolving line of credit and an \$819,355 term loan facility.

Our net line of credit availability at January 24, 2010 is approximately \$403,000 after consideration of \$21,500 in outstanding letters of credit. We have an annual commitment fee related to the unused portion of the Credit Facility of up to 0.5% 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 three and nine months ended January 24, 2010 were 4.42% and 4.39%, respectively.

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

*Subsequent Event Amendment of our Credit Facility* - On February 17, 2010, we entered into an amendment of our Credit Facility which, among other things, (1) modified the leverage ratio and interest coverage ratio to provide for greater flexibility through April 30, 2012, after which date the ratios return to the original levels as outlined in the Credit Facility; (2) reduced the capacity of the revolving line of credit by \$100,000 to \$375,000; (3) increased the interest rate of both the revolving line of credit and term loan portions to LIBOR + 3.00% with a LIBOR floor of 2.00%; and (4) allows us to issue senior unsecured notes, provided the proceeds are used to repay borrowings under the Credit Facility.

As a result of the amendment to the Credit Facility, we expect to incur a charge of approximately \$2.2 million in the fourth quarter of fiscal year 2010 related to fees and the write-off of certain unamortized deferred financing costs, of which approximately \$0.3 million is non-cash. Based on current debt levels, we expect our annual interest expense to increase by approximately \$15 million to \$18 million as a result of the amendment to the Credit Facility. As the interest rate modifications on the Credit Facility include a LIBOR floor of 2.00%, we expect our interest rate swaps to become ineffective. Under the terms of the Credit Facility, the requirement remains to hedge a portion of our variable rate debt.

*7% Senior Subordinated Notes* - Our 7% Senior Subordinated Notes are due 2014 ( 7% Senior Subordinated Notes ) and are guaranteed, on a joint and several basis, by all of our significant subsidiaries and certain other subsidiaries as described in Note 13. All of the guarantor subsidiaries are wholly owned by us. The 7% Senior Subordinated Notes are general unsecured obligations and rank junior to all of our senior indebtedness. The 7% Senior Subordinated Notes are redeemable, in whole or in part, at our option at any time on or after March 1, 2009, with call premiums as defined in the indenture governing the 7% Senior Subordinated Notes.

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

## 5. Common Stock

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

|   | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | January 24,<br>2010 | January 25,<br>2009 | January 24,<br>2010 | January 25,<br>2009 |
| <b>Numerator:</b>   |                     |                     |                     |                     |
| Income (loss) applicable to common shares:  |                     |                     |                     |                     |
| Income (loss) from continuing operations  | \$ (11,400)         | \$ 48,265           | \$ (7,971)          | \$ 35,679           |
| Income (loss) from discontinued operations  | 775                 | (2,152)             | (187)               | (6,692)             |
| Net income (loss)   | \$ (10,625)         | \$ 46,113           | \$ (8,158)          | \$ 28,987           |
| <b>Denominator:</b>   |                     |                     |                     |                     |
| Denominator for basic earnings (loss) per share - weighted average shares                         |                     |                     |                     |                     |
|   | 32,438,809          | 31,765,365          | 32,179,233          | 31,240,008          |
| Effect of dilutive securities-Employee stock options  |                     |                     |                     |                     |
|   |                     |                     |                     | 8,394               |
| Denominator for diluted loss per share - adjusted weighted average shares and assumed conversions |                     |                     |                     |                     |
|   | 32,438,809          | 31,765,365          | 32,179,233          | 31,248,402          |
| <b>Basic earnings (loss) per share:</b>   |                     |                     |                     |                     |
| Income (loss) from continuing operations  | \$ (0.35)           | \$ 1.52             | \$ (0.25)           | \$ 1.14             |
| Income (loss) from discontinued operations  | 0.02                | (0.07)              |                     | (0.21)              |
| Net income (loss)   | \$ (0.33)           | \$ 1.45             | \$ (0.25)           | \$ 0.93             |
| <b>Diluted earnings (loss) per share:</b>   |                     |                     |                     |                     |
| Income (loss) from continuing operations  | \$ (0.35)           | \$ 1.52             | \$ (0.25)           | \$ 1.14             |
| Income (loss) from discontinued operations  | 0.02                | (0.07)              |                     | (0.21)              |
| Net income (loss)   | \$ (0.33)           | \$ 1.45             | \$ (0.25)           | \$ 0.93             |

Our basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Due to the loss from continuing operations, stock options representing 57,756 and 144,386 shares, which are potentially dilutive, and 1,189,028 and 589,028 shares which are anti-dilutive, were excluded from the calculation of common shares for diluted (loss) per share for the three and nine months ended January 24, 2010, respectively. Stock options representing 1,816,521 shares which were anti-dilutive, were excluded from the calculation of common shares for diluted (loss) per share for the three and nine month periods ended January 25, 2009.

*Stock Based Compensation* Under our amended and restated 2000 Long Term Incentive Plan we have issued stock options and restricted stock.

*Restricted Stock* During the nine months ended January 24, 2010, we issued 522,375 shares of restricted common stock with a weighted average grant-date fair value of \$12.95 to employees and 122,153 shares of restricted stock with a weighted average grant-date fair value of \$11.38 to directors under the Long Term Incentive Plans. Restricted stock awarded to employees under annual long-term incentive grants vests one-third on each anniversary of the grant date and for directors vests one-half on the grant date and one-half on the first anniversary of the grant date. Restricted stock previously awarded under our tender offer vests three years from the date of award. Our estimate of forfeitures for restricted stock for employees is 10%. No forfeiture rate is





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estimated for directors. As of January 24, 2010, our unrecognized compensation cost for unvested restricted stock is \$7,683 with a remaining weighted average vesting period of 1.3 years.

*Stock Options* - We have issued incentive stock options and nonqualified stock options which have a maximum term of 10 years and are, generally, vested and exercisable in yearly installments of 20% commencing one year after the date of grant. During the nine months ended January 24, 2010 we issued 100,000 stock options with a grant date fair value of \$7.53 per option. We currently estimate our aggregate forfeiture rates at 39.6% for executives and 56.5% for optionees beneath the executive level. As of January 24, 2010, our unrecognized compensation cost for unvested stock options was \$1,817 with a weighted average vesting period of 3.3 years.

### 6. Expense Recoveries and Other Charges, Net

During the nine months ended January 24, 2010 we recorded an expense recovery of \$6,762 representing the discounted value of a receivable for reimbursement of development costs expended in prior periods relating to a terminated plan to develop a casino in Pittsburgh, Pennsylvania. This receivable was recorded following our current assessment of collectability.

During the nine months ended January 25, 2009, we reached an agreement terminating our agreement for the potential development of a casino project in Portland, Oregon. As a part of this agreement, we agreed to terminate our rights under a land option and pay a termination fee. As a result of this termination, we recorded a \$6,000 charge consisting of a non-cash write-off of \$5,000 representing our rights under the land option and a \$1,000 termination fee. Under the terms of the agreement, we retain certain rights but no continuing obligations with regard to this development project.

### 7. Fair Value Measurements

*Interest Rate Hedge Agreements* We have entered into various interest rate swap agreements pertaining to the Credit Facility for an aggregate notional value of \$400,000 with maturity dates ranging from fiscal year 2011 to 2013. In addition, during the third quarter of fiscal 2010, we entered into an interest rate cap contract with a notional value of \$20,000 having a maturity date in fiscal 2012 and paid a premium of \$105 at inception. We entered into these hedging 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.

These swap and cap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of January 24, 2010, as being fully effective. As a result, there is no impact on our consolidated statement of operations from changes in fair value. As of January 24, 2010, the weighted average fixed LIBOR interest rate of our interest rate swap agreements was 4.58%.

The fair value of derivatives included in our consolidated balance sheet and change in our unrealized loss are as follows:

| Type of Derivative Instrument | Balance Sheet Location | January 24,<br>2010 | April 26,<br>2009 | Nine Months Ended<br>January 24, 2010, |
|-------------------------------|------------------------|---------------------|-------------------|--|
|-------------------------------|------------------------|---------------------|-------------------|--|

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|                              |                             |    |        |    |        | Change in<br>Unrealized Loss |
|------------------------------|-----------------------------|----|--------|----|--------|------------------------------|
| Interest rate cap contract   | Prepaid deposits and other  | \$ | 50     | \$ |        |                              |
| Interest rate swap contracts | Accrued interest            |    | 9,696  |    | 2,258  |                              |
| Interest rate swap contracts | Other long-term liabilities |    | 6,657  |    | 21,454 |                              |
| Total                        |                             | \$ | 16,303 | \$ | 23,712 | \$ 7,304                     |

The fair value of our interest swap and cap contracts are measured 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, subject to

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a credit adjustment to the LIBOR-based yield curve's implied discount rates. The credit adjustment reflects our best estimate as to the inherent credit risk as of our balance sheet date. The fair value of our interest rate swap contracts as recorded in our consolidated balance sheet is recorded net of deferred income tax benefits of \$6,124 and \$8,879, as of January 24, 2010 and April 26, 2009, respectively. The fair value of our interest rate cap contract as recorded in our consolidated balance sheet is recorded net of deferred income tax benefits of \$20 as of January 24, 2010.

The amount of the gain (loss) reclassified from Accumulated other comprehensive income (loss) into earnings and its location in the consolidated statements of income is as follows:

| Type of Derivative Instrument | Income Statement Location | Three Months Ended |                  | Nine Months Ended |                  |
|-------------------------------|---------------------------|--------------------|------------------|-------------------|------------------|
|                               |                           | January 24, 2010   | January 25, 2009 | January 24, 2010  | January 25, 2009 |
| Interest rate swap contracts  | Interest expense          | \$ 5,144           | \$ 1,888         | \$ 14,787         | \$ 6,142         |

The amount of gain (loss) recognized in Accumulated other comprehensive income (loss) is as follows:

| Type of Derivative Instrument | Three Months Ended |                  | Nine Months Ended |                  |
|-------------------------------|--------------------|------------------|-------------------|------------------|
|                               | January 24, 2010   | January 25, 2009 | January 24, 2010  | January 25, 2009 |
| Interest rate cap contract    | \$ (35)            | \$ (35)          | \$ (35)           | \$ (35)          |
| Interest rate swap contracts  | 1,627              | (7,458)          | 4,604             | (9,286)          |
|                               | \$ 1,592           | \$ (7,458)       | \$ 4,569          | \$ (9,286)       |

The amount of Accumulated other comprehensive income (loss) related to interest rate swap contracts maturing in the next twelve months was \$(6,065) as of January 24, 2010.

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

| Type of Derivative Instrument            | January 24, 2010 | April 26, 2009 |
|--|------------------|----------------|
| Interest rate cap contract               | \$ (35)          | \$ (35)        |
| Interest rate swap contracts             | (10,228)         | (14,832)       |
| Foreign currency translation gain (loss) | (10)             | (359)          |
|  | \$ (10,273)      | \$ (15,191)    |

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

| Financial assets:         | January 24, 2010 |            | April 26, 2009  |            |
|---------------------------|------------------|------------|-----------------|------------|
|                           | Carrying Amount  | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$ 72,536        | \$ 72,536  | \$ 96,654       | \$ 96,654  |

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|                       |        |        |        |        |
|-----------------------|--------|--------|--------|--------|
| Marketable securities | 20,050 | 20,050 | 17,548 | 17,548 |
| Restricted cash       | 2,774  | 2,774  | 2,774  | 2,774  |
| Notes receivable      | 9,146  | 9,146  | 3,000  | 3,000  |

**Financial liabilities:**

|                              |           |           |            |            |
|------------------------------|-----------|-----------|------------|------------|
| Revolver                     | \$ 50,500 | \$ 50,500 | \$ 112,000 | \$ 112,000 |
| Variable rate term loans     | 819,355   | 780,436   | 825,651    | 652,264    |
| 7% Senior subordinated notes | 357,275   | 316,188   | 357,275    | 262,597    |
| Other long-term debt         | 5,996     | 5,996     | 6,146      | 6,146      |
| Other long-term obligations  | 17,486    | 17,486    | 17,314     | 17,314     |

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

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

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

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

### **8. Income Taxes**

During the nine months ended January 24, 2010, we settled certain Louisiana income tax examinations for open years from April 2001 through April 2008. As a result of the actual taxes and interest due for these years being less than our previously accrued amounts, we recognized a benefit of \$4,727 in our tax provision. Following the closure of these examinations, we believe that it is reasonably possible that an amount up to \$1,450 of our currently unrecognized tax positions may be recognized by the end of the fiscal year ending April 25, 2010. These amounts relate to positions taken or to be taken on the federal income tax returns for the fiscal years ending April 2005 through April 2008. These amounts are expected to be resolved as a result of the anticipated completion of the federal income tax examinations.

Our effective income tax rates from continuing operations for the three and nine months ended January 24, 2010 were 20.4% and 50.3%, respectively. Excluding the impact of the settlement of our Louisiana income tax matters and changes to our estimates of annual taxable income and related permanent and other items, offset by various tax credits, our effective tax rate for the three and nine months ended January 24, 2010, would have been 28.8% and 28.2%, respectively. Our effective income tax rates from continuing operations for the three and nine months ended January 25, 2009 were 38.4% and 39.9%, 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.

Related to our uncertain tax positions, we accrued gross interest expense of \$157 and \$565 respectively, for the three and nine months ended January 24, 2010 as a component of our income tax benefit. As of January 24, 2010, we have recognized a liability of \$2,669 for interest.

### **9. Supplemental Disclosures**

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*Cash Flow* For the nine months ended January 24, 2010 and January 25, 2009, we made net cash payments for interest of \$46,458 and \$62,000, respectively. Additionally, we received income tax refunds of \$1,515 and \$19,653 during the nine months ended January 24, 2010 and January 25, 2009, respectively.

For the nine months ended January 24, 2010 and January 25, 2009, the change in accrued purchases of property and equipment in accounts payable decreased by \$695 and \$767, respectively.

For the nine months ended January 25, 2009, we purchased property and equipment financed with a long-term obligation of \$12,176.

#### **10. Closure of Properties due to Flooding**

As a result of Hurricane Gustav in September 2008, our Biloxi, Mississippi, Lake Charles, Louisiana and Natchez, Mississippi properties were closed for 3 days and as a result of Hurricane Ike in September 2008 our Lake Charles property closed for an additional five 5 days during the three and nine months ended January 25, 2009. In connection with flooding in the Midwest during April 2008, our Natchez, Mississippi and Davenport, Iowa, properties closed for a combined total of 34 days during the nine months ended January 25, 2009.

#### **11. Insurance Settlement**

During December 2008, we reached an agreement with our insurance carriers fully settling our claim for \$225 million related to hurricane Katrina which had damaged our Biloxi, Mississippi property in the fall of 2005. As a result of this settlement, we received an additional \$95,000 in insurance proceeds during the quarter ended January 25, 2009. After first applying the proceeds to our remaining insurance receivable, we recognized during our third quarter of fiscal 2009, pretax income of \$92,179.

Insurance proceeds of \$60,000 relating to business interruption proceeds are included in net revenues and other insurance recoveries of \$32,179 are recorded as a reduction of operating expenses in the statement of operations.

#### **12. Contingencies**

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

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

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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 not yet been scheduled.

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 January 24, 2010, we have accrued an estimated liability including interest of \$10,450. Our accrual is based upon management's estimate of the original claim by the plaintiffs for lost payments. We continue to accrue interest on the asserted claim. We are unable to estimate a total possible loss as information as to possible additional claims, if any, have not been asserted or quantified by the plaintiffs at this time.



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

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.

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**13. Consolidating Condensed Financial Information**

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

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

Consolidating condensed balance sheets as of January 24, 2010 and April 26, 2009 are as follows (in thousands):

|  | As of January 24, 2010                                |                           |                                   |  |  |  |
|--|---|---------------------------|-----------------------------------|--|--|--|
|  | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |  |
| <b>Balance Sheet</b>                       |   |                           |                                   |  |  |  |
| Current assets                             | \$ 41,270   | \$ 68,891                 | \$ 41,433                         | \$ (2,400)                                     | \$ 149,194                                     |  |
| Intercompany receivables                   | 1,027,542   | (282,000)                 | 11,710                            | (757,252)                                      |  |  |
| Investments in subsidiaries                | 378,043   |                           |                                   | (378,043)                                      |  |  |
| Property and equipment, net                | 7,919   | 1,101,225                 | 8,083                             |  | 1,117,227                                      |  |
| Other assets                               | 10,674  | 411,821                   | 4,252                             |  | 426,747  |  |
| Total assets                               | \$ 1,465,448  | \$ 1,299,937              | \$ 65,478                         | \$ (1,137,695)                                 | \$ 1,693,168                                   |  |
| Current liabilities                        | \$ 52,312   | \$ 79,639                 | \$ 32,373                         | \$ (2,400)                                     | \$ 161,924                                     |  |
| Intercompany payables                      | 2,399   | 754,768                   | 85                                | (757,252)                                      |  |  |
| Long-term debt, less current maturities    | 1,218,730   | 4,354                     | 193                               |  | 1,223,277                                      |  |
| Other accrued liabilities                  | (39,513)  | 111,549                   | 4,411                             |  | 76,447   |  |
| Stockholders' equity                       | 231,520   | 349,627                   | 28,416                            | (378,043)                                      | 231,520  |  |
| Total liabilities and stockholders' equity | \$ 1,465,448  | \$ 1,299,937              | \$ 65,478                         | \$ (1,137,695)                                 | \$ 1,693,168                                   |  |

|                             | As of April 26, 2009                                  |                           |                                   |  |  |  |
|-----------------------------|---|---------------------------|-----------------------------------|--|--|--|
|                             | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |  |
| <b>Balance Sheet</b>        |   |                           |                                   |  |  |  |
| Current assets              | \$ 38,145   | \$ 93,538                 | \$ 46,013                         | \$ (103)                                       | \$ 177,593                                     |  |
| Intercompany receivables    | 1,141,189   | (316,376)                 | (33,920)                          | (790,893)                                      |  |  |
| Investments in subsidiaries | 337,218   |                           |                                   | (337,218)                                      |  |  |

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|   |              |              |           |                             |
|---|--------------|--------------|-----------|-----------------------------|
| Property and equipment, net               | 10,158       | 1,158,839    | 8,543     | 1,177,540                   |
| Other assets                              | 12,363       | 415,013      | 153       | 427,529                     |
| Total assets                              | \$ 1,539,073 | \$ 1,351,014 | \$ 20,789 | \$ (1,128,214) \$ 1,782,662 |
| Current liabilities                       | \$ 40,440    | \$ 94,935    | \$ 32,721 | \$ (103) \$ 167,993         |
| Intercompany payables                     |              | 790,563      | 330       | (790,893)                   |
| Long-term debt, less current maturities   | 1,286,526    | 4,650        | 208       | 1,291,384                   |
| Other accrued liabilities                 | (16,319)     | 107,301      | 3,877     | 94,859                      |
| Stockholders equity                       | 228,426      | 353,565      | (16,347)  | (337,218) 228,426           |
| Total liabilities and stockholders equity | \$ 1,539,073 | \$ 1,351,014 | \$ 20,789 | \$ (1,128,214) \$ 1,782,662 |

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Consolidating condensed statements of operations for the three and nine months ended January 24, 2010 and January 25, 2009 are as follows (in thousands):

| Statement of Operations                                      | For the Three Months Ended January 24, 2010  |                        |                            |                                       |  |
|--|--|------------------------|----------------------------|---------------------------------------|--|
|  | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Revenues:</b>   |  |                        |                            |                                       |  |
| Casino   | \$   | \$ 229,520             | \$                         | \$                                    | \$ 229,520                               |
| Pari-mutuel, rooms, food, beverage and other                 | 600  | 39,055                 | 2,409                      | (2,400)                               | 39,664                                   |
| Gross revenues   | 600  | 268,575                | 2,409                      | (2,400)                               | 269,184                                  |
| Less promotional allowances                                  |  | (42,199)               |                            |                                       | (42,199)                                 |
| Net revenues   | 600  | 226,376                | 2,409                      | (2,400)                               | 226,985                                  |
| <b>Operating expenses:</b>                                   |  |                        |                            |                                       |  |
| Casino   |  | 36,472                 |                            |                                       | 36,472                                   |
| Gaming taxes   |  | 60,529                 |                            |                                       | 60,529                                   |
| Other operating expenses                                     | 10,332                                       | 89,423                 | 3,155                      | (2,400)                               | 100,510                                  |
| Management fee expense (revenue)                             | (5,589)                                      | 7,441                  | (1,852)                    |                                       |  |
| Depreciation and amortization                                | 1,038  | 25,608                 | 152                        |                                       | 26,798                                   |
| Total operating expenses                                     | 5,781  | 219,473                | 1,455                      | (2,400)                               | 224,309                                  |
| Operating income (loss)                                      | (5,181)                                      | 6,903                  | 954                        |                                       | 2,676                                    |
| Interest expense, net  | (1,574)                                      | (15,499)               | 75                         |                                       | (16,998)                                 |
| Equity in income (loss) of subsidiaries                      | (11,554)                                     |                        |                            | 11,554                                |  |
| Income (loss) from continuing operations before income taxes | (18,309)                                     | (8,596)                | 1,029                      | 11,554                                | (14,322)                                 |
| Income tax (provision) benefit                               | 6,909  | (2,712)                | (1,275)                    |                                       | 2,922                                    |
| Income (loss) from continuing operations                     | (11,400)                                     | (11,308)               | (246)                      | 11,554                                | (11,400)                                 |
| Income (loss) from discontinued operations, net of tax       |  |                        | 775                        |                                       | 775                                      |
| Equity in income (loss) of discontinued operations           | 775  |                        |                            | (775)                                 |  |
| Income (loss) from discontinued operations, net of tax       | 775  |                        | 775                        | (775)                                 | 775                                      |
| Net income (loss)  | \$ (10,625)                                  | \$ (11,308)            | \$ 529                     | \$ 10,779                             | \$ (10,625)                              |

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| Statement of Operations                                      | For the Three Months Ended January 25, 2009           |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
|  | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| Casino   | \$  | \$ 246,717                | \$                                | \$   | \$ 246,717                                     |
| Pari-mutuel, rooms, food, beverage and other                 | 93  | 101,356                   | 2,363                             | (2,356)  | 101,456  |
| Gross revenues   | 93  | 348,073                   | 2,363                             | (2,356)  | 348,173  |
| Less promotional allowances                                  |   | (46,354)                  |                                   |  | (46,354)                                       |
| Net revenues   | 93  | 301,719                   | 2,363                             | (2,356)  | 301,819  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| Casino   |   | 37,382                    |                                   |  | 37,382   |
| Gaming taxes   |   | 63,335                    |                                   |  | 63,335   |
| Other operating expenses                                     | 9,967   | 60,240                    | 1,420                             | (2,356)  | 69,271   |
| Management fee expense (revenue)                             | (9,417)   | 11,301                    | (1,884)                           |  |  |
| Depreciation and amortization                                | 1,230   | 28,389                    | 228                               |  | 29,847   |
| Total operating expenses                                     | 1,780   | 200,647                   | (236)                             | (2,356)  | 199,835  |
| Operating income (loss)                                      | (1,687)   | 101,072                   | 2,599                             |  | 101,984  |
| Interest expense, net  | (2,667)   | (18,120)                  | (2,888)                           |  | (23,675)                                       |
| Equity in income (loss) of subsidiaries                      | 58,028  |                           |                                   | (58,028)                                       |  |
| Income (loss) from continuing operations before income taxes | 53,674  | 82,952                    | (289)                             | (58,028)                                       | 78,309   |
| Income tax (provision) benefit                               | (5,409)   | (23,309)                  | (1,326)                           |  | (30,044)                                       |
| Income (loss) from continuing operations                     | 48,265  | 59,643                    | (1,615)                           | (58,028)                                       | 48,265   |
| Income (loss) from discontinued operations, net of tax       |   |                           | (2,152)                           |  | (2,152)  |
| Equity in income (loss) of discontinued operations           | (2,152)   |                           |                                   | 2,152  |  |
| Income (loss) from discontinued operations, net of tax       | (2,152)   |                           | (2,152)                           | 2,152  | (2,152)  |
| Net income (loss)  | \$ 46,113   | \$ 59,643                 | \$ (3,767)                        | \$ (55,876)                                    | \$ 46,113                                      |

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| Statement of Operations                                      | For the Nine Months Ended January 24, 2010            |                           |                                   |  |  |
|--|---|---------------------------|-----------------------------------|--|--|
|  | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Revenues:</b>   |   |                           |                                   |  |  |
| Casino   | \$  | \$ 742,957                | \$                                | \$   | \$ 742,957                                     |
| Pari-mutuel, rooms, food, beverage and other                 | 963   | 130,322                   | 7,328                             | (7,304)  | 131,309  |
| Gross revenues   | 963   | 873,279                   | 7,328                             | (7,304)  | 874,266  |
| Less promotional allowances                                  |   | (143,525)                 |                                   |  | (143,525)                                      |
| Net revenues   | 963   | 729,754                   | 7,328                             | (7,304)  | 730,741  |
| <b>Operating expenses:</b>                                   |   |                           |                                   |  |  |
| Casino   |   | 115,474                   |                                   |  | 115,474  |
| Gaming taxes   |   | 191,056                   |                                   |  | 191,056  |
| Other operating expenses                                     | 32,761  | 277,123                   | 1,132                             | (7,304)  | 303,712  |
| Management fee expense (revenue)                             | (18,588)  | 24,839                    | (6,251)                           |  |  |
| Depreciation and amortization                                | 3,324   | 80,280                    | 458                               |  | 84,062   |
| Total operating expenses                                     | 17,497  | 688,772                   | (4,661)                           | (7,304)  | 694,304  |
| Operating income (loss)                                      | (16,534)  | 40,982                    | 11,989                            |  | 36,437   |
| Interest expense, net  | (4,945)   | (47,502)                  | (17)                              |  | (52,464)                                       |
| Equity in income (loss) of subsidiaries                      | 2,635   |                           |                                   | (2,635)  |  |
| Income (loss) from continuing operations before income taxes | (18,844)  | (6,520)                   | 11,972                            | (2,635)  | (16,027)                                       |
| Income tax (provision) benefit                               | 10,873  | 1,970                     | (4,787)                           |  | 8,056  |
| Income (loss) from continuing operations                     | (7,971)   | (4,550)                   | 7,185                             | (2,635)  | (7,971)  |
| Income (loss) from discontinued operations, net of tax       |   |                           | (187)                             |  | (187)  |
| Equity in income (loss) of discontinued operations           | (187)   |                           |                                   | 187  |  |
| Income (loss) from discontinued operations, net of tax       | (187)   |                           | (187)                             | 187  | (187)  |
| Net income (loss)  | \$ (8,158)  | \$ (4,550)                | \$ 6,998                          | \$ (2,448)                                     | \$ (8,158)                                     |

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| Statement of Operations                                      | For the Nine Months Ended January 25, 2009   |                        |                            |                                       |  |
|--|--|------------------------|----------------------------|---------------------------------------|--|
|  | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Revenues:</b>   |  |                        |                            |                                       |  |
| Casino   | \$   | \$ 769,931             | \$                         | \$                                    | \$ 769,931                               |
| Pari-mutuel, rooms, food, beverage and other                 | 274  | 196,537                | 7,206                      | (7,174)                               | 196,843                                  |
| Gross revenues   | 274  | 966,468                | 7,206                      | (7,174)                               | 966,774                                  |
| Less promotional allowances                                  |  | (143,628)              |                            |                                       | (143,628)                                |
| Net revenues   | 274  | 822,840                | 7,206                      | (7,174)                               | 823,146                                  |
| <b>Operating expenses:</b>                                   |  |                        |                            |                                       |  |
| Casino   |  | 112,370                |                            |                                       | 112,370                                  |
| Gaming taxes   |  | 196,839                |                            |                                       | 196,839                                  |
| Other operating expenses                                     | 37,989                                       | 252,793                | 7,727                      | (7,174)                               | 291,335                                  |
| Management fee expense (revenue)                             | (22,927)                                     | 29,386                 | (6,459)                    |                                       |  |
| Depreciation and amortization                                | 3,667  | 88,220                 | 452                        |                                       | 92,339                                   |
| Total operating expenses                                     | 18,729                                       | 679,608                | 1,720                      | (7,174)                               | 692,883                                  |
| Operating income (loss)                                      | (18,455)                                     | 143,232                | 5,486                      |                                       | 130,263                                  |
| Interest expense, net  | (8,426)                                      | (53,468)               | (9,008)                    |                                       | (70,902)                                 |
| Equity in income (loss) of subsidiaries                      | 58,978                                       |                        |                            | (58,978)                              |  |
| Income (loss) from continuing operations before income taxes | 32,097                                       | 89,764                 | (3,522)                    | (58,978)                              | 59,361                                   |
| Income tax (provision) benefit                               | 3,582  | (26,109)               | (1,155)                    |                                       | (23,682)                                 |
| Income (loss) from continuing operations                     | 35,679                                       | 63,655                 | (4,677)                    | (58,978)                              | 35,679                                   |
| Income (loss) from discontinued operations, net of tax       |  |                        | (6,692)                    |                                       | (6,692)                                  |
| Equity in income (loss) of discontinued operations           | (6,692)                                      |                        |                            | 6,692                                 |  |
| Income (loss) from discontinued operations, net of tax       | (6,692)                                      |                        | (6,692)                    | 6,692                                 | (6,692)                                  |
| Net income (loss)  | \$ 28,987                                    | \$ 63,655              | \$ (11,369)                | \$ (52,286)                           | \$ 28,987                                |

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

|  | Nine Months Ended January 24, 2010           |                        |                            |                                       |  |
|--|--|------------------------|----------------------------|---------------------------------------|--|
|  | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Statement of Cash Flows</b>   |  |                        |                            |                                       |  |
| Net cash provided by (used in) operating activities                    | \$ (8,717)                                   | \$ 74,929              | \$ 6,013                   | \$ (2,451)                            | \$ 69,774                                |
| Net cash provided by (used in) investing activities                    | 75,100                                       | (20,534)               | (2,564)                    | (76,938)                              | (24,936)                                 |
| Net cash provided by (used in) financing activities                    | (67,592)                                     | (74,546)               | (6,196)                    | 79,389                                | (68,945)                                 |
| Effect of foreign currency exchange rates on cash and cash equivalents |  |                        | (11)                       |                                       | (11)                                     |
| Net increase (decrease) in cash and cash equivalents                   | (1,209)                                      | (20,151)               | (2,758)                    |                                       | (24,118)                                 |
| Cash and cash equivalents at beginning of the period                   | 8,776  | 68,859                 | 19,019                     |                                       | 96,654                                   |
| Cash and cash equivalents at end of the period                         | \$ 7,567                                     | \$ 48,708              | \$ 16,261                  | \$                                    | \$ 72,536                                |

|  | Nine Months Ended January 25, 2009           |                        |                            |                                       |  |
|--|--|------------------------|----------------------------|---------------------------------------|--|
|  | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| <b>Statement of Cash Flows</b>   |  |                        |                            |                                       |  |
| Net cash provided by (used in) operating activities                    | \$ 11,684                                    | \$ 146,130             | \$ (6,871)                 | \$                                    | \$ 150,943                               |
| Net cash provided by (used in) investing activities                    | 79,704                                       | (15,160)               | (1,538)                    | (113,612)                             | (50,606)                                 |
| Net cash provided by (used in) financing activities                    | (8,952)                                      | (124,996)              | 10,590                     | 113,612                               | (9,746)                                  |
| Effect of foreign currency exchange rates on cash and cash equivalents |  |                        | (668)                      |                                       | (668)                                    |
| Net increase (decrease) in cash and cash equivalents                   | 82,436                                       | 5,974                  | 1,513                      |                                       | 89,923                                   |
| Cash and cash equivalents at beginning of the period                   | 5,363  | 67,540                 | 18,887                     |                                       | 91,790                                   |
| Cash and cash equivalents at end of the period                         | \$ 87,799                                    | \$ 73,514              | \$ 20,400                  | \$                                    | \$ 181,713                               |



**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 year ended April 26, 2009.

**Executive Overview**

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

Our operating results for the periods presented have been affected, both positively and negatively, by current economic conditions and several other factors discussed in detail below. Our historical operating results may not be indicative of our future results of operations because of these factors and the changing competitive landscape in each of our markets, as well as by factors discussed elsewhere herein. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended April 26, 2009 and by giving consideration to the following:

*Increased Competition* The opening of a new hotel in October 2009 by a competitor in Black Hawk, Colorado has had a negative impact on our Black Hawk Colorado property. The opening of a competing land-based facility, which replaced a riverboat operation in the Quad Cities area during December 2008, has had a negative impact on net revenues and operating results at our Bettendorf and Davenport, Iowa properties. The introduction of table games and expansion of Class III gaming at competing Native American casinos, beginning July 2008, has had a negative impact on our Pompano property's net revenues and operating results.

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*Colorado and Missouri Gaming Law Changes* During early July 2009, gaming law changes became effective in Colorado which extended the hours of operations, expanded the types of allowable table games and increased the betting limit from \$5 to \$100 per bet. During November 2008, gaming law changes became effective in Missouri which repealed the \$500 loss limit. Our gaming revenues reflect the favorable impact of these changes in state gaming laws.

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*Expense Recoveries and Other Charges, net* During the nine months ended January 24, 2010 we recorded an other expense reduction of \$6.8 million representing the discounted value of a receivable for reimbursement of development costs expended in prior periods relating to a terminated plan to develop a casino in Pittsburgh, Pennsylvania. This receivable was recorded following our current assessment of collectability.

During the nine months ended January 25, 2009, we recorded charges of \$6.0 million following our agreement to terminate the development of a potential casino project in Portland, Oregon.

*Hurricane Insurance Recoveries* During December 2008, we reached an agreement with our insurance carriers fully settling our claim related to Hurricane Katrina which had damaged our Biloxi property in the fall of 2005. Insurance proceeds of \$60,000 relating to business interruption proceeds are included in Hurricane insurance recoveries, a part of net revenues, and other insurance recoveries of \$32,179 are recorded as Expense recoveries in the statement of operations during the three and nine months ended January 25, 2009.

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

*Hurricanes and Flooding* As a result of Hurricane Gustav in September 2008, our Biloxi, Mississippi, Lake Charles, Louisiana and Natchez, Mississippi properties were closed for 3 days and as a result of Hurricane Ike in September 2008 our Lake Charles property closed for an additional five days during the nine months ended January 25, 2009. As a result of flooding conditions on the Mississippi River in April 2008, our Davenport and Natchez properties were closed for 20 and 14 days, respectively, during the early portion of the nine months ended January 25, 2009.

### *Revenues*

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

| (in thousands)                        | Three Months Ended  |                     | Variance    | Percentage<br>Variance |
|---------------------------------------|---------------------|---------------------|-------------|------------------------|
|                                       | January 24,<br>2010 | January 25,<br>2009 |             |                        |
| <b>Revenues:</b>                      |                     |                     |             |                        |
| Casino                                | \$ 229,520          | \$ 246,717          | \$ (17,197) | -7.0%                  |
| Rooms                                 | 8,424               | 9,216               | (792)       | -8.6%                  |
| Pari-mutuel, food, beverage and other | 31,240              | 32,240              | (1,000)     | -3.1%                  |
| Hurricane insurance recoveries        |                     | 60,000              | (60,000)    | -100.0%                |
| Gross revenues                        | 269,184             | 348,173             | (78,989)    | -22.7%                 |
| Less promotional allowances           | (42,199)            | (46,354)            | 4,155       | -9.0%                  |
| Net revenues                          | \$ 226,985          | \$ 301,819          | (74,834)    | -24.8%                 |

*Casino Revenues* - Casino revenues decreased \$17.2 million, or 7.0%, and \$27.0 million, or 3.5%, for the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. For the three

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| (in thousands)                           | Nine Months Ended   |                     | Variance    | Percentage<br>Variance |
|--|---------------------|---------------------|-------------|------------------------|
|  | January 24,<br>2010 | January 25,<br>2009 |             |                        |
| Revenues:                                |                     |                     |             |                        |
| Casino                                   | \$ 742,957          | \$ 769,931          | \$ (26,974) | -3.5%                  |
| Rooms                                    | 32,488              | 35,696              | (3,208)     | -9.0%                  |
| Pari-mutuel, food, beverage and other    | 98,821              | 101,147             | (2,326)     | -2.3%                  |
| Hurricane and other insurance recoveries |                     | 60,000              | (60,000)    | -100.0%                |
| Gross revenues                           | 874,266             | 966,774             | (92,508)    | -9.6%                  |
| Less promotional allowances              | (143,525)           | (143,628)           | 103         | -0.1%                  |
| Net revenues                             | \$ 730,741          | \$ 823,146          | (92,405)    | -11.2%                 |

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months ended January 24, 2010, casino revenues increased \$0.6 million at our Pompano property, decreased by \$4.4 million at our Black Hawk and Quad Cities properties reflecting the impact of competition and decreased by \$13.4 million at other properties primarily due to current economic conditions.

For the nine months ended January 24, 2010, casino revenues increased by \$4.8 million at our Missouri and Colorado properties reflecting the benefit of regulatory changes, decreased by \$15.4 million at our Quad Cities and Pompano properties reflecting the impact of competition and decreased by \$16.4 million at other properties primarily due to current economic conditions.

*Rooms Revenue* - Rooms revenue decreased \$0.8 million, or 8.6%, and \$3.2 million, or 9.0%, for the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. The majority of this decrease has occurred at our Lake Charles property where we have experienced decline in both room rates and occupancy due to economic conditions and market competition and at our Biloxi property due to a reduction in room rates resulting from a highly competitive market.

*Pari-mutuel, Food, Beverage and Other Revenues* - Pari-mutuel, food, beverage and other revenues decreased \$1.0 million, or 3.1%, and \$2.3 million, or 2.3%, for the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. The decrease in these revenues for the three months ended January 24, 2010, reflects an overall decrease in food, beverage and other revenues of \$0.3 million and a decrease of \$0.7 million in pari-mutuel revenues. The decrease in these revenues for the nine months ended January 24, 2010, reflects a \$2.8 million decrease in pari-mutuel revenues and a \$0.5 million increase in food, beverage and other revenues. The reduction in pari-mutuel revenues is a result of a reduction in live racing days during the early months of our current fiscal year. We plan to continue to hold live racing on scheduled days during the balance of our current fiscal year.

*Promotional Allowances* - Promotional allowances decreased \$4.2 million, or 9.0%, and \$0.1 million, or 0.1%, for the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. 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 nine months ended January 24, 2010 and January 25, 2009 are as follows:

| (in thousands)                            | Three Months Ended  |                     | Variance      | Percentage<br>Variance |
|---|---------------------|---------------------|---------------|------------------------|
|   | January 24,<br>2010 | January 25,<br>2009 |               |                        |
| <b>Operating expenses:</b>                |                     |                     |               |                        |
| Casino                                    | \$ 36,472           | \$ 37,382           | \$ (910)      | -2.4%                  |
| Gaming taxes                              | 60,529              | 63,335              | (2,806)       | -4.4%                  |
| Rooms                                     | 2,192               | 2,624               | (432)         | -16.5%                 |
| Pari-mutuel, food, beverage and other     | 10,717              | 12,011              | (1,294)       | -10.8%                 |
| Marine and facilities                     | 14,392              | 15,319              | (927)         | -6.1%                  |
| Marketing and administrative              | 62,082              | 62,457              | (375)         | -0.6%                  |
| Corporate and development                 | 11,127              | 9,039               | 2,088         | 23.1%                  |
| Expense recoveries and other charges, net |                     | (32,179)            | 32,179        | -100.0%                |
| Depreciation and amortization             | 26,798              | 29,847              | (3,049)       | -10.2%                 |
| <b>Total operating expenses</b>           | <b>\$ 224,309</b>   | <b>\$ 199,835</b>   | <b>24,474</b> | <b>12.2%</b>           |



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| (in thousands)                            | Nine Months Ended |                  | Variance | Percentage Variance |
|---|-------------------|------------------|----------|---------------------|
|   | January 24, 2010  | January 25, 2009 |          |                     |
| Operating expenses:                       |                   |                  |          |                     |
| Casino                                    | \$ 115,474        | \$ 112,370       | \$ 3,104 | 2.8%                |
| Gaming taxes                              | 191,056           | 196,839          | (5,783)  | -2.9%               |
| Rooms                                     | 7,939             | 9,206            | (1,267)  | -13.8%              |
| Pari-mutuel, food, beverage and other     | 33,126            | 37,903           | (4,777)  | -12.6%              |
| Marine and facilities                     | 46,148            | 48,202           | (2,054)  | -4.3%               |
| Marketing and administrative              | 189,849           | 189,633          | 216      | 0.1%                |
| Corporate and development                 | 33,412            | 32,570           | 842      | 2.6%                |
| Expense recoveries and other charges, net | (6,762)           | (26,179)         | 19,417   | -74.2%              |
| Depreciation and amortization             | 84,062            | 92,339           | (8,277)  | -9.0%               |
| Total operating expenses                  | \$ 694,304        | \$ 692,883       | \$ 1,421 | 0.2%                |

*Casino* - Casino operating expenses decreased \$0.9 million, or 2.4%, and increased \$3.1 million, or 2.8%, for the three and nine months ended January 24, 2010, as compared to the same period in the prior fiscal year. Reductions in casino expenses for the three months ended January 24, 2010 generally reflect the impact of reduction in expense corresponding to reductions in gaming revenues. For the nine months ended January 24, 2010, the majority of this increase in casino operating expense was incurred at our Black Hawk property in advance of and after the new gaming laws became effective and at our Lake Charles property as our prior fiscal year expenses were reduced by the impact of hurricane closures.

*Gaming Taxes* - State and local gaming taxes decreased \$2.8 million, or 4.4%, for the three months ended January 24, 2010, and decreased \$5.8 million, or 2.9%, for the nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. The reduction in our gaming tax expense reflects the overall decrease in our gaming revenues as well as changes in the mix our gaming revenues were derived from states with different gaming tax rates. Our overall effective gaming tax rates were as follows:

| Three Months Ended |                  | Nine Months Ended |                  |
|--------------------|------------------|-------------------|------------------|
| January 24, 2010   | January 25, 2009 | January 24, 2010  | January 25, 2009 |
| 26.4%              | 25.7%            | 25.7%             | 25.6%            |

*Rooms* - Rooms expense decreased \$0.4 million, or 16.5%, and \$1.3 million, or 13.8%, for the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. These expenses directly relate to the cost of providing hotel rooms. This decrease in rooms expense is reflective of an 8.6% and 9.0% reduction in our hotel revenues for the three and nine months ended January 24, 2010, respectively, compared to the same periods in the prior fiscal year.

*Pari-mutuel, Food, Beverage and Other* - Pari-mutuel, food, beverage and other expenses decreased \$1.3 million, or 10.8%, and \$4.8 million, or 12.6%, in the three and nine months ended January 24, 2010, as compared to the same periods in the prior fiscal year. The majority of this decrease is a result of our decision to not conduct live racing at our Pompano property during the early months of our current fiscal year as well as declines in food costs corresponding to a reduction in food revenues.

*Marine and Facilities* - Marine and facilities expenses decreased \$0.9 million, or 6.1%, and \$2.1 million, or 4.3%, in the three and nine months ended January 24, 2010 as compared to the same periods in the prior fiscal year. This decrease includes reductions in facility costs at our Pompano property as a result of our decision not to conduct live racing during the portions of the early months of our current fiscal year and also

includes certain reductions in utility costs.



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*Corporate and Development* - During the three months ended January 24, 2010, our corporate and development expenses were \$11.1 million compared to \$9.0 million for the three months ended January 25, 2009, and were \$33.4 million for the nine months ended January 24, 2010 as compared to \$32.6 million for the nine months ended January 25, 2009. The increase in corporate and development expenses for the three months ended January 24, 2010, reflects increased insurance expenses. The decrease in corporate and development expenses for the nine months ended January 24, 2010, reflects a reduction in non-cash stock compensation expense reflecting the impact of our October 2008 tender offer.

*Depreciation and Amortization* - Depreciation and amortization expense for the three and nine months ended January 24, 2010 decreased \$3.0 million and \$8.3 million, respectively, as compared to the same periods in the prior fiscal year, primarily due to certain assets becoming fully depreciated.

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

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

| (in thousands)  | Three Months Ended |                  | Variance | Percentage Variance |
|---|--------------------|------------------|----------|---------------------|
|   | January 24, 2010   | January 25, 2009 |          |                     |
| Interest expense  | \$ (17,452)        | \$ (24,400)      | \$ 6,948 | -28.5%              |
| Interest income   | 454                | 725              | (271)    | -37.4%              |
| Income tax benefit (provision)                                  | 2,922              | (30,044)         | 32,966   | -109.7%             |
| Income (loss) from discontinued operations, net of income taxes | 775                | (2,152)          | 2,927    | -136.0%             |

| (in thousands)   | Nine Months Ended |                  | Variance  | Percentage Variance |
|--|-------------------|------------------|-----------|---------------------|
|  | January 24, 2010  | January 25, 2009 |           |                     |
| Interest expense                                       | \$ (53,682)       | \$ (72,522)      | \$ 18,840 | -26.0%              |
| Interest income  | 1,218             | 1,620            | (402)     | -24.8%              |
| Income tax benefit (provision)                         | 8,056             | (23,682)         | 31,738    | -134.0%             |
| Loss from discontinued operations, net of income taxes | (187)             | (6,692)          | 6,505     | -97.2%              |

*Interest Expense* - Interest expense decreased \$6.9 million and \$18.8 million for the three and nine months ended January 24, 2010, respectively, compared to the same periods in the prior fiscal year. These decreases are primarily attributable to a lower average debt balance due to the pay down of \$142.7 million of our senior subordinated 7% notes as a result of our tender offer and repayment of a portion of our senior secured credit facility debt with insurance proceeds and cash flows from operations, and a decrease in the interest rate on the variable interest rate components of our debt.

*Income Tax Benefit (Provision)* - Our income tax benefit (provision) from continuing operations and our effective income tax rate has been impacted by settlement of certain state tax liabilities during the nine months ended January 24, 2010 for \$4.7 million less than our previously accrued amounts, our estimate of annual taxable income for financial statement purposes as well as our percentage of permanent and other items

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in relation to such estimated income or loss. Effective income tax rates were as follows:

|       | Three Months Ended  |                     | Nine Months Ended   |                     |
|-------|---------------------|---------------------|---------------------|---------------------|
|       | January 24,<br>2010 | January 25,<br>2009 | January 24,<br>2009 | January 25,<br>2008 |
| Total | 20.4%               | 38.4%               | 50.3%               | 39.9%               |

## Liquidity and Capital Resources

*Cash Flows from Operating Activities* - During the nine months ended January 24, 2010, we generated \$69.8 million in cash flows from operating activities compared to generating \$150.9 million during the nine months ended January 25, 2009. The year over year decrease in cash flows from operating activities primarily results from our prior year cash flows having included \$60.0 million in pretax business interruption proceeds from our Hurricane Katrina claim and an \$18.7 million reduction in income taxes receivable compared to a \$2.6 million reduction in income taxes receivable for the current nine month period.

*Cash Flows used in Investing Activities* - During the nine months ended January 24, 2010, we used \$24.9 million for investing activities compared to using \$50.6 million during the nine months ended January 25, 2009. Significant investing activities for the nine months ended January 24, 2010 included the purchases of property and equipment of \$21.6 million and payment towards our Waterloo gaming license of \$4.0 million. We received \$0.7 million in cash from the sale of assets previously classified as held for sale.

For the nine months ended January 25, 2009, significant investing activities included the purchase of property and equipment for \$45.6 million, reductions in restricted cash of \$33.2 million, primarily related to mandatory term loan repayments, and payment of \$4.0 million towards our Waterloo gaming license. Cash provided by investing activities for the nine months ended January 25, 2009, included our Hurricane Katrina insurance settlement for \$32.2 million related to property and equipment.

*Cash Flows used in Financing Activities* - During the nine months ended January 24, 2010 and January 25, 2009, our net cash flows used in financing activities were used primarily to repay our outstanding long term debt of \$69.1 million and \$9.9 million, respectively.

*Availability of Cash and Additional Capital* - At January 24, 2010, we had cash and cash equivalents and marketable securities of \$92.6 million. As of January 24, 2010, we had \$50.5 million in revolving credit and \$819.4 million in term loans outstanding under the senior secured credit facility. Our line of credit availability, net of letters of credit, at January 24, 2010 was approximately \$403 million before consideration of our credit facility amendment discussed below. Taking into account the amendment of our Credit Facility on a proforma basis, our line of credit availability, net of letters of credit, was approximately \$303 million on January 24, 2010.

*Amendment of our Credit Facility* - On February 17, 2010, we entered into an amendment of our Credit Facility which, among other things, (1) modified the leverage ratio and interest coverage ratio to provide for greater flexibility through April 30, 2012, after which date the ratios return to the original levels as outlined in the Credit Facility; (2) reduced the capacity of the revolving line of credit by \$100,000 to \$375,000; (3) increased the interest rate of both the revolving line of credit and term loan portions to LIBOR + 3.00% with a LIBOR floor of 2.00%; and (4) allows us to issue senior unsecured notes, provided the proceeds are used to repay borrowings under the Credit Facility.

As a result of the amendment to the Credit Facility, we expect to incur a charge of approximately \$2.2 million in the fourth quarter of fiscal year 2010 related to fees and the write-off of certain unamortized deferred financing costs, of which approximately \$0.3 million is non-cash. Based on current debt levels, we expect our annual interest expense to increase by approximately \$15 million to \$18 million as a result of the amendment to the Credit Facility, beginning during the fourth quarter of fiscal year 2010. As the interest rate modifications on the Credit Facility include a LIBOR floor of 2.00%, we expect our interest rate swaps to become ineffective. Under the terms of the amendment to the Credit Facility, the requirement remains to hedge a portion of our variable rate debt.

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*Capital Expenditures and Development Activities* - Historically, we have made significant investments in property and equipment and expect that our operations will continue to demand ongoing investments to keep our properties competitive. Our current planned capital expenditures include \$10 million in maintenance capital expenditures for the balance of fiscal year 2010.

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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 development opportunities, our financial condition and the condition of the financing markets. Our development activities are subject to a variety of factors including but not limited to: obtaining permits, licenses and approvals from appropriate regulatory and other agencies, legislative changes and, in certain circumstances, negotiating acceptable leases.

We have also identified approximately \$60 million in projects primarily focused on refreshing our hotel room inventory as well as additional improvements to our Black Hawk and Lake Charles properties. The timing and amount of these capital expenditures will be determined as we gain more clarity as to improvement of economic and local market conditions, cash flows from our continuing operations and availability of cash under our Credit Facility.

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

The timing and amount of our capital expenditures is subject to the availability of cash under our Credit Facility, improvement in economic and local market conditions and cash flows from our continuing operations.

Historically, 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 existing cash, cash flow from operations, and available borrowings under our Credit Facility, as recently amended, 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 our planned reduced levels of 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 Credit Facility. We will continue to evaluate our planned capital expenditures at each of our existing locations in light of the operating performance of the facilities at such locations.

### **Critical Accounting Estimates**

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

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made;

- those estimates where, had we chosen different estimates or assumptions, the resulting differences would have had a material impact on our financial condition, changes in financial condition or results of operations; and
- those estimates that, if they were to change from period to period, likely would result in a material impact on our financial condition, changes in financial condition or results of operations.

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 2009 Annual Report on Form 10-K. There were no newly identified significant accounting estimates in the third quarter of fiscal year 2010, nor were there any material changes to the critical accounting policies and estimates set forth in our 2009 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, foreign currency exchange rates, commodity prices and equity prices. Our primary exposure to market risk is interest rate risk associated with our Isle of Capri Casinos, Inc. senior secured credit facility ( Credit Facility ).

We have entered into interest rate swap and cap arrangements with aggregate notional value of \$420.0 million as of January 24, 2010. The swap agreements effectively convert portions of the Credit Facility variable debt to a fixed-rate basis until the respective swap agreements terminate, which occurs during fiscal years 2010, 2011 and 2012. These swap and cap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of January 24, 2010, as being fully effective.

We were also exposed to market risks relating to fluctuations in currency exchange rates related to our ownership interests in the UK, which are classified as discontinued operations as of January 24, 2010 and have been sold.

**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 January 24, 2010.

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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 January 24, 2010, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

A reference is made to the information contained in Footnote 12 of our unaudited condensed consolidated financial statements included herein, which is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

There are no material changes to the disclosure regarding risk factors presented in our Annual Report on Form 10-K for the fiscal year ended April 26, 2009.

**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 three months ended January 24, 2010.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**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: March 5, 2010

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

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**EXHIBIT  
NUMBER**

**DESCRIPTION**

|      |  |
|------|--|
| 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.                                   |