ISLE OF CAPRI CASINOS INC
Form 10-Q
March 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 27, 2008

OR

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

For the transition period from to

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

Delaware (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 x No o

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

Large accelerated o	Accelerated filer x	Non-accelerated filer o

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

As of March 07, 2008, the Company had a total of 35,211,496 shares of Common Stock outstanding (which includes 4,372,073 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 per share data)

		January 27, 2008 (Unaudited)		April 29, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	117,573	$	188,114
Marketable securities		20,760		17,169
Accounts receivable, net		22,469		22,527
Insurance receivable, net		10,237		56,040
Income tax receivable		25,773		
Deferred income taxes		9,735		12,421
Prepaid expenses and other assets		31,788		24,067
Total current assets		238,335		320,338
Property and equipment, net		1,432,888		1,338,570
Other assets:				
Goodwill		307,311		297,268
Other intangible assets, net		89,651		74,154
Deferred financing costs, net		15,133		13,644
Restricted cash		6,390		4,637
Prepaid deposits and other		24,021		27,080
Total assets	$	2,113,729	$	2,075,691
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current maturities of long-term debt	$	10,098	$	7,594
Accounts payable		25,665		60,460
Accrued liabilities:				
Interest		19,223		10,166
Payroll and related		48,162		48,402
Property and other taxes		24,668		23,380
Income taxes				16,011
Other		53,191		69,728
Total current liabilities		181,007		235,741
Long-term debt, less current maturities		1,560,016		1,410,385
Deferred income taxes		25,307		41,451
Other accrued liabilities		65,241		30,817
Other long-term liabilities		47,813		47,639
Minority interest				27,836
Stockholders equity:				
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued				
Common stock, $.01 par value; 45,000,000 shares authorized; shares issued: 35,211,496 at January 27, 2008 and 34,682,534 at April 29, 2007		352		347

Class B common stock, $.01 par value; 3,000,000 shares authorized; none issued				
Additional paid-in capital		186,502		175,132
Retained earnings		109,528		155,127
Accumulated other comprehensive income (loss)		(9,008)		3,358
		287,374		333,964
Treasury stock, 4,372,073 shares at January 27, 2008 and 4,323,555 shares at April 29, 2007		(53,029)		(52,142)
Total stockholders equity		234,345		281,822
Total liabilities and stockholders equity	$	2,113,729	$	2,075,691

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 27, 2008	January 28, 2007	January 27, 2008	January 28, 2007
Revenues:				
Casino	$ 269,480	$ 233,158	$ 824,996	$ 760,015
Rooms	10,674	9,995	37,595	37,965
Pari-mutuel commissions and fees	4,986	5,057	13,400	13,850
Food, beverage and other	33,137	32,309	100,808	99,274
Gross revenues	318,277	280,519	976,799	911,104
Less promotional allowances	48,612	49,680	149,763	163,073
Net revenues	269,665	230,839	827,036	748,031
Operating expenses:				
Casino	40,963	38,372	121,656	121,972
Gaming taxes	70,123	49,739	211,160	161,158
Rooms	2,507	2,173	8,852	7,053
Pari-mutuel commissions and fees	4,436	3,897	11,280	10,793
Food, beverage and other	10,614	6,928	33,643	23,520
Marine and facilities	16,852	14,233	50,123	44,979
Marketing and administrative	71,174	64,111	214,173	204,443
Corporate and development	11,846	14,572	35,839	42,407
Write-offs and other valuation charges			6,526	665
Pre-opening		2,499	6,457	3,137
Depreciation and amortization	34,871	24,608	100,698	72,898
Total operating expenses	263,386	221,132	800,407	693,025
Operating income	6,279	9,707	26,629	55,006
Interest expense	(27,548)	(22,241)	(82,538)	(65,691)
Interest income	872	1,814	3,106	5,846
Loss on early extinguishment of debt			(13,660)	
Income (loss) from continuing operations before income taxes and minority interest	(20,397)	(10,720)	(66,463)	(4,839)
Income tax (provision) benefit	7,443	1,940	25,732	(1,247)
Minority interest	(895)	(566)	(4,868)	(2,119)
Income (loss) from continuing operations	(13,849)	(9,346)	(45,599)	(8,205)
Income from discontinued operations, net of income taxes		416		18,189
Net income (loss)	$ (13,849)	$ (8,930)	$ (45,599)	$ 9,984
Earnings (loss) per common share-basic and diluted:				
Income (loss) from continuing operations	$ (0.45)	$ (0.31)	$ (1.49)	$ (0.27)
Income from discontinued operations, net of income taxes		0.02		0.60
Net income (loss)	$ (0.45)	$ (0.29)	$ (1.49)	$ 0.33
Weighted average basic and diluted shares	30,836,139	30,371,020	30,651,056	30,378,925

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except per share data)

(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance, April 29, 2007	34,682,534	$ 347	$ 175,132	$ 155,127	$ 3,358	$ (52,142)	$ 281,822
Net loss				(45,599)			(45,599)
Unrealized loss on interest rate sw1ap contracts net of income tax benefit of $7,041					(11,607)		(11,607)
Foreign currency translation adjustments					(759)		(759)
Comprehensive loss							(57,965)
Exercise of stock options, including income tax benefit of $1,495	528,962	5	6,144				6,149
Issuance of deferred bonus shares from treasury stock			(414)			414	
Purchase of treasury stock						(1,301)	(1,301)
Deferred bonus expense			199				199
Stock compensation expense			5,441				5,441
Balance, January 27, 2008	35,211,496	$ 352	$ 186,502	$ 109,528	$ (9,008)	$ (53,029)	$ 234,345

See notes to the unaudited consolidated financial statements.

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended January 27, 2008	Nine Months Ended January 28, 2007
Operating activities:		
Net income (loss)	$ (45,599)	$ 9,984
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	100,698	72,898
Amortization of bond discount and deferred financing costs	2,064	1,942
Loss on derivative instruments	521	
Write-offs and other valuation charges	6,526	665
Deferred income taxes		(1,517)
Stock compensation expense	5,441	5,629
Deferred compensation expense	199	249
Loss on extinguishment of debt	13,660	
Gain on disposal of assets	(219)	(25,334)
Minority interest	4,868	2,119
Impairment charges, related to hurricane		656
Changes in operating assets and liabilities, net of dispositions:		
Marketable securities	(3,591)	647
Accounts receivable	(13)	(9,582)
Insurance receivable	45,804	(1,019)
Income tax receivable (payable)	(36,538)	(2,530)
Prepaid expenses and other assets	(6,211)	(14,175)
Accounts payable and accrued liabilities	(43,062)	7,154
Net cash provided by operating activities	44,548	47,786
Investing activities:		
Purchase of property and equipment	(141,914)	(288,052)
Purchase of intangibles	(157)	(4,000)
Net cash paid for acquisitions	(107,896)	
Proceeds from sales of assets held for sale		242,382
Insurance proceeds for hurricane damages		22,619
Increase in restricted cash	(1,753)	(398)
Net cash used in investing activities	(251,720)	(27,449)
Financing activities:		
Proceeds from debt issuance	700,000	
Principal payments on debt	(508,197)	(4,776)
Net repayments on line of credit	(50,460)	(3,383)
Payment of deferred financing costs	(8,383)	(69)
Proceeds from exercise of stock options including tax benefit	6,149	3,839
Purchase of treasury stock	(1,301)	(5,557)
Cash distribution to minority partner	(1,249)	
Net cash provided by (used in) financing activities	136,559	(9,946)
Effect of foreign currency exchange rates on cash	72	(1,264)

Net (decrease) increase in cash and cash equivalents		(70,541)		9,127
Cash and cash equivalents, beginning of period		188,114		121,049
Cash and cash equivalents, end of the period	$	117,573	$	130,176

See notes to the unaudited consolidated financial statements.

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 and internationally. Our wholly owned subsidiaries own and operate fourteen casino gaming facilities in the United States located in Black Hawk, Colorado; Lake Charles, Louisiana; Lula, Biloxi and Natchez, Mississippi; Kansas City, Caruthersville and Boonville, Missouri; Bettendorf, Davenport, Waterloo and Marquette, Iowa; and Pompano Beach, Florida. Effective January 27, 2008, we own 100% of our operations in Black Hawk Colorado following the acquisition of our minority partner s 43% interest in those operations. Our international gaming interests include wholly owned casinos in Freeport, Grand Bahamas and Coventry, England and a two-thirds ownership interest in casinos in Dudley and Wolverhampton, England. We also wholly own and operate a pari-mutuel harness racing facility in Pompano Beach, Florida at the site of our Pompano Park casino facility.

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 29, 2007 as filed with the SEC and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report, which are available on the SEC s website at *www.sec.gov* or our website at *www.islecorp.com*.

Our fiscal year ends on the last Sunday in April. Periodically, this system necessitates a 53-week year. Fiscal 2008 and fiscal 2007 are both 52-week years, which commenced on April 30, 2007 and May 1, 2006, respectively.

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.

Discontinued operations relate to those of the Riverboat Corporation of Mississippi-Vicksburg in Vicksburg, Mississippi and Louisiana Riverboat Gaming Partnership in Bossier City, Louisiana, prior to July 31, 2006 when they were sold and are shown net of income tax effects. The results of these operations for prior periods are presented as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144).

3. Revenue Recognition

In accordance with gaming industry practice, we recognize casino revenues as the net win from gaming activities. Casino revenues are also net of accruals for anticipated payouts of progressive slot jackpots and certain table games wherein incremental jackpot amounts owed are accrued for games in which every coin played or wagered adds to the jackpot total. Revenues from hotel, food, beverage, entertainment and gift shop are recognized at the time the related service or sale is performed or made.

4. Discontinued Operations

On July 31, 2006, we completed the sale of our Bossier City and Vicksburg properties for $240.0 million cash plus a working capital adjustment of $7.4 million. We received $240.0 million, less transaction fees, at closing and have been paid $4.9 million of the $7.4 million working capital adjustment as of January 27, 2008.

The results of our discontinued operations are summarized as follows (in thousands):

	Three Months Ended January 28, 2007	Nine Months Ended January 28, 2007
Net revenues	$	$ 41,335
Pretax income from discontinued operations	382	5,845
Gain on sale of discontinued operations		24,117
Income tax (provision) benefit from discontinued operations	34	(11,773)
Income from discontinued operations	416	18,189

Net interest expense of $3.3 million for the nine months ended January 28, 2007 has been allocated to discontinued operations based on the ratio of net assets to be sold to the sum of our total net assets plus our debt not attributable to a particular operation in accordance with EITF 87-24, Allocation of Interest to Discontinued Operations.

5. Acquisitions, Goodwill and Other Intangible Assets

Acquisition of Minority Interest in Black Hawk Colorado Operations Effective January 27, 2008, we purchased the 43% minority membership interests in our Black Hawk Colorado subsidiaries for a purchase price of $64.8 million, including transaction costs. Following the acquisition, we own 100% of our Black Hawk Colorado operations. The purchase price for these membership interests was determined based upon estimates of future cash flows and evaluations of the net assets acquired. We funded the purchase through borrowings under our Senior Credit Facility. We accounted for the purchase using the purchase method of accounting in accordance with SFAS No. 141 Business Combinations (SFAS 141). Third party valuations for the property and equipment, and intangible assets are still in process. After consideration of the minority interest liability of $30.2 million, the preliminary purchase price allocation included $14.0 million in property and equipment, $10.6 million in other intangible assets and $10.0 million in goodwill.

Acquisition of Caruthersville - On June 10, 2007, we acquired 100% of the membership interests of Atzar Missouri Riverboat Gaming Company, L.L.C., a Missouri limited liability company located in Caruthersville, Missouri. The purchase price, including transaction costs, was approximately $46.2 million, including $3.1 million of cash acquired. The purchase price for these membership interests was determined based upon estimates of future cash flows and evaluations of the net assets acquired. During January 2008, we finalized certain post closing date adjustments with the seller. The purchase was accounted for using the purchase method of accounting in accordance with SFAS 141. Third party valuations were obtained for the property and equipment, and other intangible assets. The purchase price included $0.9 million in net working capital, $40.3 million in property and equipment, and $5.0 million in other intangible assets.

The changes in the carrying amount of goodwill and other intangible assets are as follows (in thousands):

	Goodwill	Gaming Licenses	Customer Lists, net	Trademarks	Other Intangibles Assets, net
April 29, 2007	$ 297,268	$ 61,953	$	$ 12,201	$ 74,154
Acquisition of Minority Interest in Black Hawk Colorado Operations	10,043	7,800	2,500	300	10,600
Acquisition of Caruthersville		4,111	807	102	5,020
Acquisition of Coventry trademark				127	127
Amortization expense			(179)	(71)	(250)
January 27, 2008	$ 307,311	$ 73,864	$ 3,128	$ 12,659	$ 89,651

6. Long-Term Debt

Long-term debt consists of the following (in thousands):

	January 27, 2008	April 29, 2007
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	$ 175,000	$
Variable rate term loans, matures November 25, 2013, principal and interest payments due quarterly at either LIBOR and/or prime plus a margin	696,500	
February 2005 Credit Facility:		
Revolving line of creidt		210,000
Variable rate term loans		293,500
Senior Subordianted Notes:		
7% Senior Subordinated Notes, interest payable semi-annually March 1 and September 1	500,000	500,000
9% Senior Subordinated Notes, extinguished August 2007		200,000
Senior Secured Credit Facilities of Subsidiaries - non-recourse to Isle of Capri Casinos, Inc.		
Isle-Black Hawk Credit Facility:		
Revolving line of credit, expires October 24, 2010, interest payable at least quarterly at either LIBOR and/or prime plus a margin		16,400
Variable rate term loan, matures October 24, 2011, principal and interest payments due quarterly at either LIBOR and/or prime plus a margin	185,725	187,150
Blue Chip Credit Facility	5,947	6,157
Other	6,942	4,772
	1,570,114	1,417,979
Less current maturities	10,098	7,594
Long-term debt	$ 1,560,016	$ 1,410,385

July 2007 Credit Facility - On July 26, 2007, we entered into a $1.35 billion senior secured credit facility (July 2007 Credit Facility), replacing the February 2005 Credit Facility. As of January 27, 2008, the July 2007 Credit Facility is secured on a first priority basis by substantially all of our assets and by all of the significant domestic subsidiaries, excluding the subsidiaries that own and operate our Colorado casinos.

The July 2007 Credit Facility consists of a $475.0 million five-year revolving line of credit and an $875.0 million term loan facility. The $875.0 million term loan facility consists of a $500.0 million senior secured loan facility which was drawn at closing; a $200.0 million senior secured delayed draw facility which was drawn in August 2007 to retire our 9% Senior Subordinated Notes and a $175.0 million senior secured delayed draw facility which can be drawn within twelve months after closing, at our option.

Subsequent to quarter end, we drew down the $175.0 million delayed draw term loan portion of the July 2007 Credit Facility and used such proceeds to fully repay and retire the Isle-Black Hawk Senior Secured Credit Facility. Simultaneously, we designated our Black Hawk subsidiaries as restricted subsidiaries under the July 2007 Credit Facility. After giving pro forma effect to the designation above, our net line of credit availability at January 28, 2008 is approximately $155 million. The assets of our Black Hawk, Colorado subsidiaries have been assigned as additional collateral under the July 2007 Credit Facility effective January 28, 2008.

Debt issuance costs incurred as part of the July 2007 Credit Facility aggregated to $7.9 million. In conjunction with the replacement of the February 2005 Credit Facility with the July 2007 Credit Facility, $2.3 million of unamortized debt issuance costs were recorded as a loss on early extinguishment of debt for the nine months ended January 27, 2008, while the remaining deferred debt issuance costs will be amortized over the respective lives of the revolver and term credit facilities of the July 2007 Credit Facility. We followed EITF 96-19 Debtor s Accounting for a Modification of Exchange of Debt Instruments and EITF 98-14 Debtor s Accounting for changes in Line-of-Credit or Revolving Debt Arrangements in accounting for this refinancing transaction and its associated deferred debt issuance costs.

The weighted average effective interest rate of the February 2005 and July 2007 Credit Facilities for the three and nine month periods ended January 27, 2008 were 6.52% and 6.94%, respectively.

The July 2007 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 July 2007 Credit Facility also restricts our ability to make certain investments or distributions. We are in compliance with the covenants as of January 27, 2008.

February 2005 Credit Facility Prior to entering into the July 2007 Credit Facility, we were party to the February 2005 Credit Facility (February 2005 Credit Facility), which consisted of a $400.0 million revolving line of credit facility maturing in February 2010 and a $300.0 million term loan facility maturing in February 2011.

7% Senior Subordinated Notes - During 2004, we issued $500.0 million of 7% Senior Subordinated Notes due 2014 (7% Senior Subordinated Notes). At January 27, 2008, the 7% Senior Subordinated Notes are guaranteed, on a joint and several basis, by all of our significant domestic subsidiaries, excluding the subsidiaries that own and operate our Colorado casinos, and other subsidiaries as described more fully in Note 16. All of the guarantor subsidiaries are wholly owned by us. The 7% Senior Subordinated Notes are general unsecured obligations and rank junior to all existing and future senior indebtedness, equally with all existing and future senior subordinated debt, and senior to any future subordinated indebtedness. On January 28, 2008, our Black Hawk, Colorado wholly owned subsidiaries were designated as additional guarantors on a joint and several basis under the 7% Senior Subordinated Notes.

The 7% Senior Subordinated Notes are redeemable, in whole or in part, at our option at any time on or after March 1, 2009, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period beginning on March 1st of the years indicated below:

Year	**Percentage**
2009	103.500%
2010	102.333%
2011	101.167%
2012 and thereafter	100.000%

We issued the 7% Senior Subordinated Notes under an indenture between the Company, the subsidiary guarantors and a trustee. 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.

9% Senior Subordinated Notes - During 2002, we issued $200.0 million of 9% Senior Subordinated Notes due 2012 (9% Senior Subordinated Notes). These 9% Senior Subordinated Notes were called for redemption at 104.5% and redeemed during August 2007. $11.4 million in losses on early extinguishment of debt are included in the consolidated statements of operations for the nine months ended January 27, 2008 includes the $9.0 million call premium and the write-off of deferred financing costs associated with the 9% Senior Subordinated Notes.

Isle-Black Hawk Senior Secured Credit Facility - During 2005, Isle of Capri Black Hawk, L.L.C. entered into a $240.0 million Second Amended and Restated Credit Agreement and amended such agreement during January 2007 (the Isle-Black Hawk Credit Facility). The credit agreement, as amended, provides for a $50.0 million revolving credit facility and a $190.0 million term loan facility. The credit agreement is secured by liens on substantially all of Isle of Capri Black Hawk, L.L.C. s assets. As of January 28, 2008, we repaid and cancelled the Isle-Black Hawk Credit Facility with proceeds borrowed under our July 1007 Credit Facility. As a result of cancelling the Isle-Black Hawk Credit Facility, we will expense the balance of unamortized deferred finance costs of approximately $1.6 million during our fourth quarter ending April 27, 2008.

The weighted-average effective interest rate of total debt outstanding under the Isle-Black Hawk Credit Facility for the three and nine months ended at January 27, 2008 and the three and nine months ended January 28, 2007 was 6.97%, 6.99%, 6.81% and 6.83%, respectively.

As of January 27, 2008, Isle of Capri Black Hawk, L.L.C. had no letters of credit outstanding under the Isle-Black Hawk Credit Facility and was in compliance with all covenants. As of January 28, 2008, we repaid and cancelled the Isle-Black Hawk Credit Facility with proceeds borrowed under our July 2007 Credit Facility. As a result of canceling the Black Hawk Credit Facility, we will expense the balance of unamortized deferred financing costs of approximately $1.6 million during our fourth quarter ending April 27, 2008.

Blue Chip Credit Facility - Blue Chip Casinos Plc (Blue Chip) entered into an agreement effective November 28, 2003, as amended on May 24, 2004, with the Bank of Scotland to borrow up to £3.5 million (the Blue Chip Credit Facility) to fund its casino development program. As of January 27, 2008, total outstanding debt aggregated £3.0 million ($5.9 million), which consisted of a £2.3 million ($4.5 million) term loan facility and a £0.7 million ($1.4 million) outstanding balance under the £0.8 million available revolving loan facility. The term loan is to be repaid in periodic principal payments, which started in July 2005 and continue through July 2012. The interest rate at Blue Chip s option is (1) the Bank of Scotland s base rate plus a current margin of 2.0% or (2) LIBOR plus a margin of 1.75%. As of January 27, 2008, the effective interest rate was 7.75%. The Blue Chip Credit Facility is non-recourse to the Company.

Blue Chip Casinos Plc was in compliance with all covenants as of January 27, 2008. As of January 27, 2008, Blue Chip Casinos Plc had no letters of credit outstanding under the Blue Chip Credit Facility, and net availability under the Blue Chip Credit Facility was £0.1 million ($0.2 million).

Interest Rate Swap Agreements We have entered into various interest rate swap agreements pertaining to the July 2007 Credit Facility for an aggregate notional value of $450.0 million with maturity dates ranging from fiscal year 2010 to 2011 in order to manage market risk on variable rate term loans outstanding, as well as comply with, in part, requirements under the July 2007 Credit Facility.

These swap agreements meet the criteria for hedge accounting for cash flow hedges and have been evaluated, as of January 27, 2008, 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 27, 2008, we recorded a liability of $18.7 million in Other long-term liabilities representing the fair market value of the swap agreements and an unrealized loss of $11.6 million, net of a $7.1 million deferred income tax benefit, in Accumulated other comprehensive income on the consolidated balance sheet. As of January 27, 2008, the weighted average fixed LIBOR interest rate of our interest rate swap agreements was 4.65%.

As of January 27, 2008, Isle of Capri Black Hawk, L.L.C. had interest rate swap agreements with an aggregate notional value of $40.0 million, or 21.5% of its variable rate debt outstanding under the Isle-Black Hawk Credit Facility. The swap agreements effectively convert portions of Isle of Capri Black Hawk, L.L.C. variable rate debt to a fixed-rate basis until the respective remaining swap agreements terminate, which occurs during the fourth quarter of fiscal year 2008. For the three and nine months ended January 27, 2008 and the three and nine months ended January 28, 2007, Isle of Capri Black Hawk, L.L.C. recorded a loss of $0.1 million, $0.5 million, $0.3 million and $0.7 million, respectively, in food, beverage and other within the accompanying consolidated statements of operations related to the change in fair market value of the undesignated swap agreements. As of January 27, 2008, the weighted average fixed LIBOR interest rate of the Isle of Capri Black Hawk, L.L.C. interest rate swap agreements was 3.80%.

The fair value of the estimated interest differential between the applicable future variable rates and the interest rate swap contracts not designated as hedging instruments, expressed in present value terms, totaled $0.and $0.5 million as of January 27, 2008 and April 29, 2007, respectively. Based on the maturity dates of the contracts, these amounts are included in prepaid expenses and other assets in the accompanying consolidated balance sheets.

7. Other Long-Term Obligations

We entered into an agreement during fiscal year 2004 to lease space for a new casino, which opened in July 2007, in Coventry, England in the sub-level of the Arena Coventry Convention Center. The convention center was developed, and is owned and operated by a non-affiliated entity and began operations in August 2005. Because certain structural elements were installed by us during the construction of the space being leased and certain prepaid lease payments we made, we are required to be treated, for accounting purposes only, as the owner of the Arena Coventry Convention Center, in accordance with Emerging Issues Task Force Issue No. 97-10 (EITF 97-10), The Effect of Lessee Involvement in Asset Construction . Accordingly, we have recorded a long-term obligation for £24.1 million ($47.8 million) and £23.8 million ($47.6 million) as of January 27, 2008 and April 29, 2007, respectively, even though we do not; (1) own this asset, (2) we are not the obligor on the corresponding long-term obligation and (3) do not participate in or control the operations of the convention center. Upon completion of the convention center we were precluded from accounting for the transaction as a sale and leaseback under SFAS No. 98 Accounting for Leases due to our continuing involvement as a tenant, as a result of our lease prepayments during the construction period of the convention center. Therefore, we are accounting for the transaction using the direct financing method in accordance with SFAS No. 66 Accounting for the Sales of Real Estate .

The other long-term obligation will be reflected in our consolidated balance sheets until completion of the lease term, when the related fixed assets will be removed from our financial statements. At such time, the net of the remaining obligation over the carrying value of the fixed asset will be recognized as a gain on sale of the facility.

8. Earnings per Share of Common Stock

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	January 27, 2008	**January 28, 2007**	**January 27, 2008**	**January 28, 2007**
Numerator:				
Income (loss) applicable to common shares:				
Income (loss) from continuing operations	$ (13,849)	$ (9,346)	$ (45,599)	$ (8,205)
Income from discontinued operations		416		18,189
Net income (loss)	$ (13,849)	$ (8,930)	$ (45,599)	$ 9,984
Denominator:				
Denominator for basic earnings per share weighted average shares	30,836,139	30,371,020	30,651,056	30,378,925
Effect of dilutive securities				

Minority interest in earnings of a subsidiary refers to the Company s investment in Odem. On September 29, 2005, the Company acquired 23.9% of the outstanding shares of Odem from the minority shareholders, thus increasing its holdings in Odem from 63.8% on December 31, 2004 to 87.7% on September 30, 2005. On November 1, 2005, the company acquired the remaining shares of Odem, and Odem became a wholly-owned subsidiary of the Company.

Net loss from continuing operations for the nine months ended September 30, 2005 was $3,627,000 compared to $1,424,000 in the nine months ended September 30, 2004.

Net loss for the nine months ended September 30, 2005 was $3,627,000 compared to $1,442,000 in the nine months ended September 30, 2004.

On a per share basis, the net loss for the nine months ended September 30, 2005 was $0.69 per share compared to a $0.34 loss per share in the nine months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

We finance our activities by different means, including equity financings, short and long-term loans, grants from the OCS and income from operating activities.

On June 10, 2004, the Company entered into a Securities Purchase Agreement (the Purchase Agreement), with Laurus Master Fund Ltd. (the Investor), under which the Company issued and sold to the Investor in a private placement (i) a Secured Convertible Term Note of a $2 million principal amount, due June 10, 2007 (the Note) and (ii) a warrant to purchase 130,000 Ordinary Shares at an exercise price of $4.04 per share (the Warrant). The Warrant is exercisable, in whole or in part, until June 10, 2011.

The Note was convertible into Ordinary Shares at a price of $3.08 per share. The note conversion price was subject to proportional adjustment in the event of stock splits, combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares. In addition, if the Company was to issue stock in certain types of transactions at a price lower than the initial conversion price, then the conversion price would be adjusted to a lower price based on a weighted average formula. As a result of the price per share in the June 2005 private placement offering described below, the conversion price of the convertible note was reduced to $2.9042.

The principal amount of the Note was repayable in monthly installments, commencing as of October 1, 2004, in the initial amount of $20,000 eventually increasing to $73,600. Interest on the Note was payable monthly.

Pursuant to its undertaking in the Registration Rights agreement with the Investor, the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of Ordinary Shares issuable upon conversion of the Note and/or exercise of the Warrants, and/or issuable in payment of principal and interest on the Note. The Registration Rights agreement provided that any delay in registration and/or effectiveness of the underlying shares of the transaction, or failure to maintain their effectiveness, will result in penalties to be paid in cash, as liquidated damages. The registration statement was declared effective on March 11, 2005. Due to the delay in the effectiveness of the registration of the shares, we paid the Investor liquidated damages until March 11, 2005, in the amount of $92,000.

On March 23, 2005, after the Investor elected to convert $308,000 of the principal sum of the convertible note, the Investor was issued 100,000 ordinary shares of the Company. In July 2005, the Investor completed the conversion of the balance of the Convertible note principal and the accrued interest (approximately $1,580,000) into an additional 540,293 ordinary shares.

In September 2005, the Company entered into a Second Securities Purchase Agreement (the Purchase Agreement) with the Investor, under which the Company issued to the Investor in a private placement (i) a Secured Convertible Term Note of a $ 1,500,000 principal amount, due September 2008 (the Note) and (ii) a warrant to purchase 73,052 Ordinary shares at an exercise price of $ 4.04

per share (the Warrant). According to the Purchase Agreement, several fees in the amount of $ 116,000 were paid to the Investor. Those fees are presented as a discount of the principal convertible loan. The Note is convertible into Ordinary shares at a price of $ 3.08 per share. The principal amount of the Note is repayable in monthly installments, commencing as of January 2006, in the initial amount of $ 15,000 eventually increasing to $ 55,000. The Note bears prime interest rate plus 1.5%, which is subject to reduction under certain conditions. The Warrant is exercisable, in whole or in part, until September 29, 2012.

Pursuant to its undertaking in a Registration Rights agreement with the Investor, the Company is required to file with the Securities and Exchange Commission by a certain date a registration statement on Form F-3 covering the resale of Ordinary Shares issuable upon conversion of the Note and/or exercise of the Warrants, and/or issuable in payment of principal and interest on the Note. Any delay in registration and/or effectiveness of such registration statement, or failure to maintain its effectiveness, will result in penalties to be paid in cash, as liquidated damages, equal to 1.0% for each

30 day period of the original principal amount of the Note.

The Note conversion price is subject to proportional adjustment in the event of stock splits, combinations, subdivisions of the Ordinary shares or if dividend is paid on the Ordinary shares in Ordinary shares. In addition, if BOS issues stock in certain types of transactions at a price lower than the initial conversion price, then the conversion price will be adjusted to a lower price based on a weighted average formula.

The fair value of the warrants was calculated using the Black & Scholes Option Pricing Model with the following assumptions: a risk-free interest rate of 4.08%, a dividend yield of 0%, a volatility of the expected market price of the Company s Ordinary shares of 100% and a weighted-average contractual life of seven years. The fair value of the warrants in the amount of $ 144,000 is offset against the Note, amortized over the period of the Note and presented as a component in shareholders equity.

In June 2005, the Company completed a private placement in which it issued to investors 953,698 Ordinary Shares at a purchase price of $ 2.30 per share, for a consideration of approximately $ 2,045 (net of $ 149 in issuance expenses) and 572,219 warrants to purchase Ordinary Shares, reflecting a 60% warrant coverage. The warrants are exercisable for three years from their date of issuance. The exercise price is $2.50 per ordinary share during for the first year from the issue date, and increasing to $2.75 per ordinary share and $3.03 per ordinary share, on the first and second anniversaries of the issue date, respectively. The warrant exercise price is subject to adjustment in certain circumstances.

As of September 30, 2005, we had $4,464,000 in cash and cash equivalents, $2,146,000 in marketable securities, $3,926,000 short and long-term loans and positive working capital of $6,797,000.

Net cash used in operating activities of continuing operations for the nine months ended September 2005 was $3,275,000 compared to $688,000 for the nine months ended September 30, 2004. During the nine months ended September 30, 2005 we provided $597,000 from investing activities compared to $164,000 in the nine months ended September 30, 2004. The cash provided in investing activities in both periods is mainly due to redemption of marketable securities.

The Company s long and short term loans as of September 30, 2005, amounted to $3,926,000, of which $2,686,000 is loans from Israeli banks and the convertible note issued to the Investor accounts for the remainder.

Working capital and working capital requirements will vary from time-to-time and will depend on numerous factors, including but not limited to operating results, the level of resources devoted to research and development, new product introductions, grants from the OCS and marketing and acquisition activities.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is invested in short-term (less than 3 months) U.S. dollars and NIS interest bearing deposits with banks. Our receivables aging is between 40 to 90 days and our current liabilities aging is between 40 to 60 days. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, (c) directors and officers indemnities, in excess of the proceeds received from liability insurance which we obtain and (d) legal proceedings.

We believe that our cash resources are sufficient to meet our needs for at least 12 months following the date of this submission. However, it is our intention to engage in equity and loan financing to further feature-rich products of the Company, establish distribution channels in new markets and search for new merger and acquisition opportunities. There is, however, no assurance that we shall be able to obtain such financing.

BOS Holdings in ODEM to Increase to 100%

TERADYON, ISRAEL November 1, 2005 B.O.S. Better Online Solutions Ltd. (BOS or the Company) (NASDAQ: BOSC, TASE: BOSC), announced today that following the exercise of a put option by Telsys Ltd., it has entered into and closed a transaction pursuant to which it shall acquire the remaining shareholdings of Telsys Ltd. in Odem Electronics Technologies 1992 Ltd. (Odem), a subsidiary of BOS, in consideration for a cash payment in the amount of $554,105, thus increasing its holdings in Odem from 87.7% to

100%. Previously, in September 2005, BOS had increased its holdings from 64% to 87.7% by purchasing the holdings of another Odem minority shareholder.

Adiv Baruch, President and CEO of BOS commented: Odem is continuing to expand its overseas activities and there is a growing demand for its products. We strongly believe that this is a promising investment and that Odem is becoming one of the fundamental growth engines within BOS .

Edouard Cukierman, Chairman of the Board, said A year ago we decided to invest in Odem and since then it has significantly increased its profitability. We believe that this trend will continue, and are pleased with the opportunity to increase our stake .

About BOS

B.O.S. Better Online Solutions Ltd. (the Company or BOS) (NASDAQ:BOSC; TASE:BOSC) was established in 1990. BOS develops and markets innovative products that improve enterprise communications and operations. Its activities are focused on two domains:

Communications products- providing easy to install and affordable VoIP and cellular gateways solutions for businesses. BOS communications products leverage existing infrastructure, radically reduce costs and facilitate operations.

Connectivity products marketed under the BOSaNOVA brand name. These products deliver instant and transparent connectivity from IBM iSeries computers to personal computers, thin clients and browsers.

In addition BOS supplies electronic and RFID components and technology design services through the ODEM Division, based on Odem Electronic Technologies 1992 Ltd., in which a controlling stake was acquired in November 2004.

BOS, www.boscorporate.com is traded on NASDAQ (NASDAQ: BOSC) and on the Tel-Aviv stock exchange (TASE: BOSC).

For further information, please contact:
Mr,. Emanuel Kahana
Gelbart-Kahana Public Relations & Investors Relations
Tel. +972-3-6074717, e-Mail: info@gk-biz.com

The forward-looking statements contained herein reflect management s current views with respect to future events and financial performance. These forward-looking *statements are subject to certain risks and uncertainties that could cause the actual results to differ materially from those in the forward-looking statements, all of which are difficult to predict and many of which are beyond the control of BOS, including, but not limited to, those risks and uncertainties detailed in BOS periodic reports and registration statements filed with the U.S. Securities Exchange Commission. BOS undertakes no obligation to publicly update or revise any such forward-looking statements to reflect any change in its expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.*

- 2 -