ISLE OF CAPRI CASINOS INC
Form 10-Q
April 18, 2007
Table of Contents

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 28, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 0-20538

ISLE OF CAPRI CASINOS, INC.

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

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

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

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 filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of April 16, 2007, the Company had a total of 34,682,534 shares of Common Stock outstanding (which includes 4,131,968 shares held by us in treasury).

* **The registrant s independent registered public accounting firm has not completed the review of the registrant s interim financial statements included in this Form 10-Q prior to this filing as required by the Securities and Exchange Commission Rule 10-01(d) of Regulation S-X because of the pending financial statement restatements discussed herein.**

Table of Contents

ISLE OF CAPRI CASINOS, INC.

FOR M 10-Q

INDEX

Table of Contents

RESTATEMENT

Overview

On March 12, 2007, Isle of Capri Casinos, Inc. (the Company) announced that it would restate its financial statements for the fiscal years ended April 25, 2004, April 24, 2005 and April 30, 2006 and the quarterly results for fiscal 2005 and 2006 included therein, and for the first two fiscal quarters of fiscal 2007. This Form 10-Q for the three month and nine months ended January 28, 2007 and January 22, 2006 has been filed prior to the filing of the amended Form 10-K and Forms 10-Q for the above referenced periods. Financial information reported within this Form 10-Q for the nine months ended January 28, 2007 and the three and nine months end January 22, 2006 contain the restatement of financial information referred to above.

The cumulative effect of these restatements has resulted in a decrease of the Company s retained earnings through the fiscal quarter ended October 29, 2006 of $1.0 million, relative to our total stockholders equity of $296.7 as of that date. The restatement adjustments primarily relate to the following items: accounting for the lease of the Company s new casino space in Coventry, England in accordance with Emerging Issue Task Force 97-10, The Effect of Lessee Involvement in Asset Construction , which cumulatively decreased retained earnings by $2.2 million; the correction of accounting errors at the Company s 66-2/3% owned Blue Chip plc subsidiary in England which cumulatively reduced retained earnings by $2.3 million; the amortization of certain intangible assets which cumulatively reduced retained earnings by $4.1; adjustments to the calculation of the gain on the sale of the Isle-Bossier City related to the proper allocation of certain intangible assets, which cumulatively increased retained earnings by $5.2 million; and the correction of various income tax accounting issues which cumulatively increased retained earnings by $5.0. Additionally as part of the restatement process, the Company has made correcting adjustments for items previously determined to be immaterial which cumulatively decreased retained earnings by $2.6. Refer to footnote 2 in these financial statements for a detailed discussion of all restatement adjustments.

As previously reported by the Company, the previously filed financial statements for the periods discussed above should not be relied upon. Furthermore, all notes to the consolidated financial statements should be read in their entirety when reading these financial statements because they materially impact the ability to understand the historical financial information presented regarding the Company.

The Company s independent registered public accounting firm has not completed an audit or review of any of the Company s restated financial statements or a review of any of the interim financial statements included within this Form 10-Q. Furthermore, the financial information presented in this Form 10-Q related to the fiscal year ended April 30, 2006 is unaudited. The Company will file an amendment to this Quarterly Report on Form 10-Q for the three months and nine months ended January 28, 2007, to include the independent auditors review certification as soon as practicable after the restatements have been audited or reviewed, as appropriate.

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical or current facts included in this report on Form 10-Q or incorporated by reference herein, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may , will , expect , intend , estimate , anticipate , believe or continue or the negative there variations thereon or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

Important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from our expectations, are further discussed in the Section Risk Factors in our annual report on Form 10-K for the fiscal year ended April 30, 2006 which is currently being restated, as such factors may be updated in subsequent Securities and Exchange Commission (SEC) filings. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- the effect of significant competition from other gaming operations in the markets in which we operate;
- the effects of changes in gaming authority regulations;
- the effects of changes in gaming taxes;
- the effects of changes in non-gaming regulations;
- loss of key personnel;
- the impact of inclement weather on our patronage;
- the timing and amount of collection of insurance receivables;
- the effects of construction and related disruptions associated with expansion projects at existing facilities;
- the effects of increases in energy and fuel prices;
- the effects of increases in construction costs;
- general and regional economic conditions;
- the effects of limitations imposed by our substantial indebtedness

- the outcome of pending litigation;

- political conditions and regulatory uncertainties in the U.S. and international venues in which we operate or are pursuing development opportunities; and

- the expected results of the previously announced restatements of the prior period financial statements and related reviews and audits of those prior periods by our independent registered public accounting firm which have not yet been completed.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Our Internet website is http://www.islecorp.com. We make our filings available free of charge on our Internet website as soon as reasonably practical after we electronically file such reports with, or furnish them to, the SEC.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except per share data)

	January 28, 2007	April 30, 2006 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129,867	$ 120,884
Marketable securities	17,081	17,727
Accounts receivable, net	27,558	17,203
Insurance receivable, net	57,103	79,361
Deferred income taxes	9,866	9,897
Prepaid expenses and other assets	25,720	14,794
Assets held for sale		212,081
Total current assets	267,195	471,947
Property and equipment, net	1,196,988	980,604
Other assets:		
Goodwill	304,552	304,552
Other intangible assets	73,814	73,814
Deferred financing costs, net	14,290	16,162
Restricted cash	2,610	2,210
Prepaid deposits and other	20,933	18,909
Total assets	$ 1,880,382	$ 1,868,198
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 8,602	$ 8,588
Accounts payable	48,771	59,264
Accrued liabilities:		
Interest	25,285	10,863
Payroll and related	46,702	57,316
Property and other taxes	29,923	26,045
Income taxes	8,240	8,741
Progressive jackpots and slot club awards	12,488	12,293
Other	47,670	42,102
Total current liabilities	227,681	225,213
Long-term debt, less current maturities	1,204,952	1,212,692
Deferred income taxes	54,926	56,630
Other accrued liabilities	21,643	21,981
Other long term obligations	46,500	42,366

Minority interest	27,248	26,690
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000 shares authorized; none issued		
Common stock, $.01 par value; 45,000 shares authorized; 34,536 shares issued: at January 28, 2007 and 34,291 shares issued: at April 30, 2006	345	343
Class B common stock, $.01 par value; 3,000 shares authorized; none issued		
Additional paid-in capital	169,480	161,523
Unearned compensation		(1,383)
Retained earnings	171,636	164,169
Accumulated other comprehensive income	3,255	130
	344,716	324,782
Treasury stock, 4,132 shares at January 28, 2007 and 3,902 shares at April 30, 2006	(47,284)	(42,156)
Total stockholders' equity	297,433	282,627
Total liabilities and stockholders' equity	$ 1,880,382	$ 1,868,198

See notes to the unaudited consolidated financial statements.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended January 28, 2007	Three Months Ended January 22, 2006 (Restated)	Nine Months Ended January 28, 2007 (See Note 2)	Nine Months Ended January 22, 2006 (Restated)
Revenues:				
Casino	$ 233,158	$ 234,954	$ 760,015	$ 694,711
Rooms	9,995	6,203	37,965	25,372
Pari-mutuel commissions and fees	5,057	4,350	13,850	13,301
Food, beverage and other	32,315	27,338	99,283	87,352
Gross revenues	280,525	272,845	911,113	820,736
Less promotional allowances	49,680	43,821	163,073	138,717
Net revenues	230,845	229,024	748,040	682,019
Operating expenses:				
Casino	38,609	35,000	122,647	108,883
Gaming taxes	49,739	52,868	161,158	155,208
Rooms	2,173	1,231	7,056	5,723
Pari-mutuel commissions and fees	3,897	3,432	10,793	10,548
Food, beverage and other	6,894	6,828	23,492	21,042
Marine and facilities	15,049	13,145	46,870	41,810
Marketing and administrative	76,970	65,605	241,112	208,107
Valuation and other charges			665	
Hurricane related charges, net		3,576		4,776
Preopening	3,022	40	6,057	224
Depreciation and amortization	24,703	21,958	72,943	65,666
Total operating expenses	221,056	203,683	692,793	621,987
Operating income	9,789	25,341	54,616	60,032
Interest expense	(22,482)	(19,248)	(66,180)	(55,741)
Interest income	1,814	584	5,815	2,147
Loss on extinguishment of debt		(2,110)		(2,110)
Minority interest	(598)	(439)	(2,216)	(4,387)
Income (loss) from continuing operations before income taxes	(11,477)	4,128	7,334	(59)
Income taxes (benefit)	(1,770)	1,907	347	575
Income (loss) from continuing operations	(9,707)	2,222	(7,681)	(633)
Income from discontinued operations including gain on sale, net of income taxes	216	2,010	15,148	3,632
Net income (loss)	$ (9,491)	$ 4,232	$ 7,467	$ 2,999
Earnings (loss) per common share-basic:				
Income (loss) from continuing operations	$ (0.32)	$ 0.07	$ (0.25)	$ (0.02)
Income from discontinued operations including gain on sale, net of income taxes	0.01	0.07	0.50	0.12

Net income (loss)	$ (0.31)	$ 0.14	$ 0.25	$ 0.10
Earnings (loss) per common share-diluted:				
Income (loss) from continuing operations	$ (0.32)	$ 0.07	$ (0.25)	$ (0.02)
Income from discontinued operations including gain on sale, net of income taxes	0.01	0.06	0.50	0.12
Net income (loss)	$ (0.31)	$ 0.13	$ 0.25	$ 0.10
Weighted average basic shares	30,371	29,951	30,379	30,054
Weighted average diluted shares	30,371	31,042	30,379	30,054

See notes to the unaudited consolidated financial statements.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, April 30, 2006 (Restated)	34,291	$ 343	$ 161,523	$ (1,383)	$ 164,169	$ 130	$ (42,156)	$ 282,627
Net income					7,467			7,467
Unrealized loss on interest rate swap contracts net of income tax benefit of $9						(13)		(13)
Foreign currency translation adjustments						3,138		3,138
Comprehensive income								10,592
Exercise of stock options, including income tax benefit of $1,015	245	2	3,732					3,734
Issuance of deferred bonus shares from treasury stock			(429)				429	
Deferred bonus expense			249					249
Stock compensation expense			5,788					5,788
Reclassification of unearned compensation due to the adoption of SFAS 123(R)			(1,383)	1,383				
Purchase of treasury stock							(5,557)	(5,557)
Balance, January 28, 2007	34,536	$ 345	$ 169,480	$	$ 171,636	$ 3,255	$ (47,284)	$ 297,433

See notes to the unaudited consolidated financial statements.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine-Months Ended January 28, 2007	Nine-Months Ended January 22, 2006 (Restated)
Operating activities:		
Net income	$ 7,468	$ 2,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,943	76,913
Amortization of deferred financing costs	1,942	2,320
Valuation and other charges	665	
Early extinguishment of debt		2,110
Deferred income taxes	(1,413)	(2,212)
Gain on Derivative Instruments	726	(527)
Tax benefit of stock option exercise		1,242
Stock compensation expense	5,788	
Deferred compensation expense	249	335
Gain on disposal of assets	(24,913)	
Minority interest	2,216	4,387
Impairment charges	844	62,439
Changes in operating assets and liabilities, net of dispositions:		
Accounts receivable	(9,578)	(3,066)
Insurance receivable	(785)	(114,965)
Income taxes, net	(1,021)	5,734
Prepaid expenses and other assets	(11,448)	(3,753)
Accounts payable and accrued liabilities	7,233	8,496
Net cash provided by operating activities	50,914	42,452
Investing activities:		
Purchase of property and equipment	(288,569)	(157,458)
Acquisition of license	(4,000)	(5,775)
Purchase of short-term investments, net of sales	647	(2,901)
Changes on notes receivable		21
Proceeds from sales of assets	3,657	
Proceeds from sale of assets held for sale	238,725	
Insurance proceeds for hurricane damages	22,617	26,088
Restricted cash	(400)	(173)
Prepaid deposits and other	(3,878)	(10,652)
Net cash used in investing activities	(31,201)	150,850
Financing activities:		
Proceeds from debt	130	122,475
Increase in line of credit	202,200	2,524
Decrease in line of credit	(205,400)	
Principal payments on debt	(5,776)	(49,609)
Payment of deferred financing costs	(68)	(1,792)
Tax benefit of stock compensation expense	1,015	

Purchase of treasury stock	(5,557)	(8,493)
Proceeds from exercise of stock options	2,717	5,044
Net cash provided by financing activities	(10,739)	70,149
Effect of foreign currency exchange rates on cash	9	(733)
Net decrease in cash and cash equivalents	8,983	(38,982)
Cash and cash equivalents at the beginning of period	120,884	146,433
Cash and cash equivalents at the end of the period	$ 129,867	$ 107,450
Supplemental disclosure of cash flow information:		
Net cash payments for:		
Interest (net of capitalized interest)	$ 55,539	$ 50,731
Income taxes, net of refunds	16,897	(545)

See notes to the unaudited consolidated financial statements.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Background and Nature of Operations

Isle of Capri Casinos, Inc. and its subsidiaries (together with its subsidiaries the Company or Isle of Capri) was incorporated in Delaware in February 1990. The Company is a leading developer, owner, and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States and internationally. The Company wholly owns and operates ten casino gaming facilities in the United States located in Lake Charles, Louisiana; Lula, Biloxi and Natchez, Mississippi; Kansas City and Boonville, Missouri; Bettendorf, Davenport and Marquette, Iowa; and Pompano Beach, Florida. The Company also owns a 57% interest in, and receives management fees for operating, two gaming facilities in Black Hawk, Colorado. One of these facilities in Black Hawk, Colorado operates under the name Isle of Capri and features the Company s distinctive tropical island theme. The Company s international gaming interests include a wholly owned casino in Freeport, Grand Bahama, a two-thirds ownership interest in casinos in Dudley and Wolverhampton, England and a wholly owned casino to be opened in the summer of 2007 in Coventry, England. The Company also wholly owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida at the site of its Pompano Beach casino facility.

Discontinued operations relate to those of the Colorado Grande casino, located in Cripple Creek, Colorado (Colorado Grande-Cripple Creek), the Riverboat Gaming Corporation of Mississippi-Vicksburg (Isle-Vicksburg) located in Vicksburg, Mississippi and the Louisiana Riverboat Gaming Partnership (Isle-Bossier City) located in Bossier City, Louisiana. The sale of Colorado Grande Cripple Creek was closed on April 25, 2005. On July 31, 2006, the Company closed the sale of Isle-Bossier City and Isle-Vicksburg. The financial position and results of the discontinued operations are presented as assets held for sale in the consolidated balance sheets and discontinued operations in the consolidated statements of operations, respectively, for all periods presented in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 144 (SFAS No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets. For further discussion see Note 4.

On June 1, 2006, the Company notified its landlord of its decision to terminate its lease at Isle-Our Lucaya in Freeport, Grand Bahama. In the first fiscal quarter, the Company recorded approximately $2.2 million in lease termination costs in accordance with FASB Statement of Financial Accounting Standards No. 146 (SFAS No. 146), Accounting for Costs Associated with Exit or Disposal Activities. This charge, included in marketing and administrative expenses, relates to the Company s planned closure of the Isle-Our Lucaya operation by June 2007. Recently, the Company has entered into discussions with the Bahamian government that may result in the Company continuing its operations at the Isle-Our Lucaya.

On May 11, 2005, the Company announced that the Iowa Racing and Gaming Commission awarded it a gaming license in Waterloo, Iowa. Construction is underway on a 35,000 square foot single level casino with 1,300 gaming positions, three restaurants, a 200-room hotel and 1,000 parking spaces. The project scope has recently been expanded and will also include a nightclub, a full service spa and a resort pool. The Company expects the property to open in July 2007 at a total cost of approximately $175 million.

On January 4, 2006, a Florida statute became effective allowing Pompano Park and three other pari-mutuel facilities in Broward County to offer slot machine gaming to patrons at these facilities. Although there are pari-mutuel facilities in numerous other counties in the State of Florida, slot machine gaming is only authorized in Broward County where Pompano Park is located. On April 14, 2007, the Company opened a gaming facility consisting of 1,500 slot machines, four restaurants and a feature bar at Pompano Park adjacent to the existing grandstand, which cost approximately $176 million to construct. The statue also requires Pompano Park to pay an annual license fee of $3 million and gaming taxes equal to 50% of Pompano Park s net slot machine revenue plus combined county and city taxes approximating an additional 3.5% on the first $250 million of net slot machine revenue and 5% on net slot machine revenue over $250 million.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Background and Nature of Operations (continued)

Litigation is presently ongoing which if ultimately determined adversely could invalidate the statewide vote amending the Florida constitution to permit slot machines at pari-mutuels could eliminate the Company s right to operate slot machines at Pompano Park. The Company can provide no assurance as to the outcome of this litigation. For more information, please see the risk factors below.

On August 18, 2006, the Harrison County Planning Commission approved the Company s master plan for its previously announced 50-acre development in west Harrison County, Mississippi, which is approximately 20 miles from the Mississippi/Louisiana state border near Interstate 10. Preliminary plans call for the estimated $320 million project to include a single-level gaming facility with over 2,000 gaming positions, a hotel, restaurants and a complement of additional resort amenities. The project remains in the preliminary planning stages, and is subject to certain significant conditions, including but not limited to the receipt of all necessary licenses, approvals and permits.

On January 11, 2007, the Company announced that its president and chief operating officer will be stepping down. The Company is in the process of a comprehensive search for his replacement. The president and chief operating officer is continuing in his management responsibilities while the search for his replacement is ongoing.

Interim Financial Information

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, except with regard to the independent auditors review as discussed above under Restatement Overview . Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended January 28, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending April 29, 2007.

Fiscal Year-End

The Company s fiscal year ends on the last Sunday in April. This fiscal year creates more comparability of the Company s quarterly operations, by generally having an equal number of weeks (13) and weekend days (26) in each fiscal quarter. Periodically, this system necessitates a 53-week year, as occurred in the fiscal year ended April 30, 2006. Fiscal 2007 is a 52 week year which commenced on May 1, 2006 and ends on April 29, 2007.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial position and results of discontinued operations, of Isle-Vicksburg, Isle-Bossier City and Colorado Grande-Cripple Creek are presented as assets held for sale in the consolidated balance sheet as of April 30, 2006 and as discontinued operations in the consolidated statements of operations for all periods presented in accordance with SFAS No. 144.

In April 2006, the Company s Board of Directors approved a plan to close the Isle-Our Lucaya facility in Freeport, Grand Bahama. Effective June 1, 2006, the Company notified its landlord of its decision to terminate the lease and the Company intends to cease operations by June 1, 2007 as required by its lease. The Company will continue to report the results of the Isle-Our Lucaya property as continuing operations until a probable sale of this facility is reached or operations are ceased, at which time, these results will be reported as discontinued operations in accordance with SFAS No. 144. The Company has recently entered into discussions with the Bahamian government that may result in the Company continuing its operations at the Isle-Our Lucaya.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Background and Nature of Operations (continued)

New Pronouncements

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that a company recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 become effective in the first quarter of fiscal 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact, if any, of adopting FIN 48 on its financial statements, and such impact cannot be reasonably estimated at this time.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), to define fair value and establish a framework for measuring fair value in GAAP and to expand disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. The expanded disclosures about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements and the effect of certain measurements on earnings (or changes in net assets) for the period. SFAS No. 157 becomes effective in the first quarter of fiscal 2008. Early adoption is permitted. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157 on its financial statements, and such impact cannot be reasonably estimated at this time.

2. Restatement

On March 12, 2007, the Company announced that it would restate its financial statements for the fiscal years ended April 25, 2004, April 24, 2005 and April 30, 2006 and the quarterly results for fiscal 2005 and 2006 included therein, and for the first two quarters of fiscal 2007. This Form 10-Q for the three and nine months ended January 28, 2007 and January 22, 2006 has been filed prior to the filing of amended forms 10-K and 10-Q s for the above referenced periods. Financial information reported within this Form 10-Q for the nine months ended January 28, 2007 and the three and nine months ended January 22, 2006 contains the restatement of prior period financial information as referred to above.

The Company s independent registered public accounting firm has not completed an audit or review of any of the Company s restated financial statements or a review of any of the interim financial statements included within this form 10-Q. Furthermore, the financial information presented in this form 10-Q related to the fiscal year ended April 30, 2006 is unaudited.

Background

During the course of the Company s third quarterly review, management and the Company s independent auditors identified issues that, when corrected, had a material effect upon the Company s previously issued financial statements. The primary issues related to this restatement are disclosed as follows:

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

Adjusted Items

International Operations

Lease Accounting

The Company entered into an agreement during fiscal 2004 to lease space for a new casino (which is still under construction and is expected to open in fiscal year 2008) in Coventry, England in the sub-level of the Arena Coventry Convention Center. The convention center was developed, owned and operated by a non-affiliated entity and began operations in August 2005. Through discussions with the Company s independent registered public accounting firm, the Company determined that due to certain structural elements installed by the Company during the construction of the space being leased and certain prepaid lease payments made by the Company, the Company is required to be treated, for accounting purposes only, as the owner of the Arena Coventry Convention Center, in accordance with Emerging Issues Task Force 97-10, The Effect of Lessee Involvement in Asset Construction (EITF 97-10). As a result, the Company has been required to record property and equipment, (net) of $51.5 million and $43.5 million as of October 29, 2006 and April 30, 2006, respectively. Additionally, the Company has been required to record a long term obligation for $40.6 million and $43.5 million as of October 29, 2006 and April 30, 2006 respectively, even though we do not own these assets, are not the obligor on the corresponding long-term obligation and do not participate in or control the operations of the convention center. The Company has also been required to record adjustments to depreciate these assets of $2.8 million, including $0.5 million and $1.4 million for the three and nine month periods ended January 28, 2007 and $0.4 million and $0.9 million for the three and nine month periods ended January 22, 2006. The Company has also recorded cumulative interest expense of $2.7 million on the other long-term obligation as of October 29, 2006, including $0.5 million and $1.4 million for the three and nine month periods ended January 28, 2007 and $0.5 million and $1.4 million for the three and nine month periods ended January 22, 2006. The Company has also reversed previously recorded rent expense of $2.9 million, including $0.7 million and $2.9 million for the three and nine month periods ended January 28, 2007 and none for the three and nine month periods ended January 22, 2006 and has also reversed previously recorded interest income of $1.8 million, including $0.2 million and $0.7 million for the three and nine month periods ended January 28, 2007 and $0.2 million and $0.5 million for the three and nine month periods ended January 22, 2006. The cumulative effect of these restatement items reduced retained earnings $2.5 million, including $2.2 million as of October 29, 2006 and $2.1 million as of April 30, 2006. Additionally, prepaid deposits were reduced by $10.7 million related to this adjustment.

Blue Chip Casinos plc

During the fiscal quarter ended January 28, 2007, the statutory audits of the financial statements of Blue Chip (Blue Chip) for the fiscal years ended April 24, 2005 and April 30, 2006, were completed. Blue Chip Casinos plc is a 66-2/3% owned subsidiary of the Company, which operates pub-style casinos in the United Kingdom (UK). In accordance with the original agreement governing Blue Chip s operations, Blue Chip was managed by its UK-based minority shareholders during the impacted periods. The Company assumed management responsibilities of Blue Chip during fiscal 2007. The completion of these have resulted in adjustments that reduced our retained earnings by approximately $2.3 million as of April 30, 2006. These adjustments related primarily to the identification and recording of fixed assets which were not properly recorded as originally reported and the associated depreciation related to those assets, as well as corrections for previously un-reconciled expense and balance sheet accounts related primarily to payroll issues and operating activities. Of the $2.3 million reduction in retained earnings, $1.6 million was recorded in the fiscal year ended April 24, 2005 and the remaining $0.7 million was recorded in the fiscal year ended April 30, 2006.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been restated to reflect the following:

Lady Luck Customer Lists

When the Company acquired Lady Luck Gaming Corporation in March 2000, it capitalized Lady Luck s customer lists as an intangible asset. This asset should have been amortized over a service life of 3 years, but amortization was incorrectly discontinued when the Company implemented Financial Accounting Standards Board Statement No. 142 Goodwill and Other Intangible Assets (FAS 142) at the beginning of fiscal 2002. The Company has determined that the remaining balance of $4.0 million should have been fully amortized over a three year service life, and therefore adjustments have been made to fully amortize this asset by the fiscal year ended April 27, 2003. The cumulative effect of these adjustments reduced retained earnings $2.2 million as of April 27, 2003. Additionally, the Company has reclassified a net amount of $1.3 million from other intangibles to goodwill, which had been improperly classified at the date of acquisition.

Biloxi Berthing Rights

The Company recorded payments made for berthing rights related to the Isle-Biloxi pursuant to a 1992 agreement and was amortizing the asset over a twenty-year period prior to the adoption of FAS 142 at the beginning of fiscal 2002. The Company should have been amortizing this asset over a ten year period. Through the adoption of FAS 142 the Company incorrectly reclassified the unamortized balance of these berthing rights to Goodwill and ceased amortization. It has been determined that the remaining balance of $3.5 million should have been fully amortized by the fiscal year ended April 28, 2002. The cumulative effect of this adjustment reduced retained earnings $1.9 as of April 28, 2002.

Isle-Bossier City & Isle-Lake Charles intangible assets reclassification

During the course of evaluating its tax positions on various entities, it was discovered that an error had occurred in the allocation of intangible assets related primarily to gaming licensing costs at two of the Company s Louisiana properties. Specifically, in fiscal 2001, the Company had recorded net intangible assets of $10.4 million related to one of its Lake Charles riverboat licenses in error at its Bossier City property. This error resulted in the miscalculation of the pretax gain on the sale of discontinued operations in the second quarter of fiscal 2007 related to the disposal of Isle-Bossier City, along with Isle-Vicksburg. As a result, the adjustment to correct this error increased the pre-tax gain on sale by $10.4 million. The cumulative effect of this adjustment increased retained earning $5.2 million as of October 29, 2006.

Income Taxes

During the third fiscal quarter ended January 28, 2007, the Company identified certain income tax adjustments which were corrected in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). All tax adjustments have been recorded in the respective period in which the event occurred. As a result of these restatements, the Company s cumulative retained earnings were increased $5.0 million and $2.8 million as of October 29, 2006 and April 30, 2006, respectively.

Hurricane Impairment

In the fiscal quarter ended October 29, 2006, the Company identified and recorded $7.1 million in fixed assets at Isle-Biloxi that should have been recorded as impaired assets related to damages from Hurricane Katrina in the fiscal quarter ended October 23, 2005. Due to the fact that these assets were not impaired in the proper time period, they continued to be depreciated until their recent identification. To correctly present this impairment in the proper period, the impairment and the related depreciation has been reversed from the periods affected. The cumulative effect of these adjustments increased retained earnings $0.2 million as of October 29, 2006. This error also caused the insurance receivable to be understated by $7.1 million as of October 23, 2005 which was also corrected through this adjustment.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

Other Adjustments

As part of the restatement process, the Company has made correcting adjustments for items previously determined to be immaterial:

The Company identified an expense of $1.6 million that the Company had incorrectly booked over the lifetime of the Company s operations which related to the initial funding for progressive slot machine jackpots. As a result of this restatement, the cumulative amount of this expense, which had been previously recognized, was reversed on the statement of operations for the year ended April 30, 2006. The financial statements have been restated to be reflected in the appropriate periods in which the expense was first incorrectly recognized. As of fiscal year end April 30, 2006 there was no net effect on retained earnings related to this adjustment.

Management identified adjustments to both interest expense and interest income relating to tax incremental financing at the Isle-Bettendorf. For the year ended April 25, 2004, interest expense has been reduced and interest receivable has been increased for $1.0 million related to an adjustment for an incorrectly calculated accrual. For the fiscal year ended April 24, 2005, interest expense and accounts payable have been reduced by $0.1 million to correct for an overstatement of interest related to TIF bonds held by Isle-Bettendorf. For the fiscal year ended April 30, 2006, interest expense and accounts payable have been increased by $0.2 million to correct for an accrual which had been incorrectly calculated.

Discontinued operations related to Isle-Vicksburg and Isle-Bossier City in previously reported financial statements included additional interest expense allocated to them from continuing operations based on a net asset ratio provided for by Emerging Issues Task Force 87-24 Allocation of Interest to Discontinued Operations (EITF 87-24). The restatement of prior period financial statements has changed the amount of interest allocated from continuing operations to discontinued operations based on that formula. For the year ended April 24, 2005, $0.5 million of interest expense has been reallocated back to continuing operations. Interest expense in the amounts of $0.3 millions, $0.2 million, $0.3 million and $0.2 million have also been reallocated back to continuing operations for the three months ended July 24, 2005, October 23, 2005, January 22, 2006 and April 30, 2006, respectively.

Other additional adjustments primarily related to a reclassification of $0.6 million in rent expense at Isle-Davenport from the fiscal year ended April 24, 2005 to the fiscal year ended April 25, 2004, a reduction of gaming revenue and cash in the fiscal year ended April 24, 2005 of $0.3 million related to a cash reconciliation at Isle-Natchez, a recognition in the fiscal year ended April 24, 2005 of $0.2 million in other revenue and accounts receivable related to interest rate swaps at Isle-Black Hawk and other adjustments to correct for miscellaneous accruals.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

The following tables present the impact of the restatement adjustments on the consolidated financial statements presented in this Form 10-Q by line item.

Consolidated Balance Sheet

(Increase/(Decrease) in thousands)

	April 30, 2006		
	As Previously Reported	Adjustment	As Restated
ASSETS			
Cash and cash equivalents	$ 121,193	$ (309)	$ 120,884
Accounts receivable, net	17,268	(65)	17,203
Insurance receivable, net	72,053	7,308	79,361
Prepaid expenses and other assets	15,560	(766)	14,794
Assets held for sale	222,446	(10,365)	212,081
Total current assets	476,144	(4,197)	471,947
Property and equipment, net	938,428	42,176	980,604
Goodwill	296,354	8,198	304,552
Other intangible assets	74,789	(975)	73,814
Deferred financing costs, net	16,064	98	16,162
Prepaid deposits and other	29,955	(11,046)	18,909
Total assets	1,833,944	34,254	1,868,198
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	58,561	703	59,264
Interest	10,523	340	10,863
Payroll and related	56,904	412	57,316
Property and other taxes	25,888	157	26,045
Income taxes	10,323	1,582	8,741
Progressive jackpots and slot club awards	12,415	122	12,293
Other	40,652	1,450	42,102
Total current liabilities	223,854	1,359	225,213
Deferred income taxes	58,105	(1,475)	56,630
Other accrued liabilities	23,580	(1,599)	21,981
Other long term obligations		42,366	42,366
Additional paid-in capital	160,508	1,015	161,523
Retained earnings (1)	165,156	(987)	164,169
Accumulated other comprehensive income	220	(90)	130
Total stockholders' equity	282,688	61	282,627
Total liabilities and stockholders' equity	1,833,944	34,254	1,868,198

(1) The cumulative effect of the restatement adjustment as of the fiscal year ended April 24, 2005 (effectively beginning retained earnings for fiscal year ended April 30, 2006) was a decrease of approximately $2.0 million. Included in this decrease is a $4.9 million decrease in retained earnings related to Coventry lease adjustments, a decrease of $1.6 million related to the Blue Chip prior year adjustments, and a decrease to retained earnings of approximately $1.1 million for various other adjustments.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

Consolidated Statements of Operations

Increase (decrease) (in thousands, except per share data)

	Three Months Ended January 22, 2006			Nine Months Ended January 22, 2006		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Revenues:						
Food, beverage and other	$ 27,270	$ 68	$ 27,338	$ 86,824	$ 528	$ 87,352
Gross revenues	272,777	68	272,845	820,208	528	820,736
Operating expenses:						
Gaming taxes	52,868		52,868	155,882	(674)	155,208
Food, beverage and other	6,827	1	6,828	21,039	3	21,042
Marine and facilities	13,148	(3)	13,145	41,819	(9)	41,810
Marketing and administrative	65,572	33	65,605	208,477	(370)	208,107
Depreciation and amortization	21,541	417	21,958	64,789	877	65,666
Total operating expenses	203,235	448	203,683	622,160	(173)	621,987
Operating income	25,721	(380)	25,341	59,331	701	60,032
Interest expense	(18,665)	(583)	(19,248)	(54,311)	(1,430)	(55,741)
Interest income	754	(170)	584	2,588	(441)	2,147
Income (loss) from continuing operations before income taxes	5,261	(1,133)	4,128	1,111	(1,170)	(59)
Income taxes (benefit)	3,305	(1,398)	1,907	1,391	(816)	575
Income (loss) from continuing operations	1,956	265	2,221	(280)	(353)	(633)
Income from discontinued operations including gain on sale, net of income taxes	2,177	(167)	2,010	4,178	(546)	3,632
Net income (loss)	4,133	98	4,231	3,898	(899)	2,999

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Restatement (continued)

Consolidated Statement of Cash Flows

Increase (decrease) (in thousands)

	Nine Months Ended January 22, 2006		
	As Previously Reported	Adjustment	As Restated
Operating activities:			
Net income	$ 3,898	$ (899)	$ 2,999
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	76,037	876	76,913
Gain on Derivative Instruments		(527)	(527)
Impairment charges	55,184	7,255	62,439
Accounts receivable	(3,108)	42	(3,066)
Insurance receivable	(81,622)	(33,343)	(114,965)
Income taxes, net	6,551	(817)	5,734
Accounts payable and accrued liabilities	7,291	1,205	8,496
Net cash provided by operating activities	68,660	(26,208)	42,452
Investing activities:			
Insurance proceeds for hurricane damages		26,088	26,088
Prepaid deposits and other	(10,729)	77	(10,652)
Net cash used in investing activities	(177,015)	26,165	150,850
Net decrease in cash and cash equivalents	(38,939)	(43)	(38,982)
Cash and cash equivalents at the beginning of period	146,743	(310)	146,433
Cash and cash equivalents at the end of the period	$ 107,804	$ (354)	$ 107,450

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Stock-Based Compensation

Effective May 1, 2006, the Company adopted the FASB Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), Share-Based Payment, using the modified prospective method, thus, results for the periods prior to May 1, 2006 have not been restated in relation to the application of SFAS 123(R).

As a result of adopting SFAS 123(R), the Company recognized $1.5 million and $5.7 million for stock option expense for the three and nine months ended January 28, 2007, respectively, which is included in marketing and administrative expense in the Consolidated Statements of Operations for the respective periods. The total income tax benefit recognized was approximately $0.5 million and $1.0 million for the three and nine months ended January 28, 2007, respectively. The incremental expense, net of income tax benefit, for stock options decreased diluted earnings per share by $0.03 and $0.16 for the three and nine months ended January 28, 2007, respectively. As of January 28, 2007, there was $10.0 million in unrecognized stock compensation costs, related to unvested options, which the Company will expense over the remaining vesting period, approximately 5 years with a weighted average period of 3.5 years.

For periods prior to May 1, 2006, the Company applied the recognition and measurement principles of Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for the Company s three stock-based employee compensation plans. No stock-based employee compensation expense was reflected in net income related to stock option grants as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company recognized a tax benefit from the exercise of certain stock options. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had adopted SFAS No. 123(R) for the three and nine months ended January 22, 2006.

	Three Months Ended January 22, 2006 (Restated)	Nine Months Ended January 22, 2006 (Restated)
(In thousands, except per share data)		
Income (loss) from continuing operations	$ 2,221	$ (634)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(761)	(2,902)
Pro forma income (loss) before discontinued operations	$ 1,460	$ (3,536)
Income from discontinued operations	2,010	3,632
Pro forma net income	$ 3,470	$ 96
Earnings (loss) per share: Basic		
As Reported		
Income (loss) from continuing operations	$ 0.05	$ (0.12)
Income from discontinued operations	0.07	0.12
Net income	$ 0.12	$ 0.0
Earnings (loss) per share: Basic		
Pro Forma		
Income (loss) from continuing operations	$ 0.05	$ (0.12)
Income from discontinued operations	0.07	0.12
Net income	$ 0.12	$ 0.0

Earnings (loss) per share: Diluted				
As Reported				
Income (loss) from continuing operations	$	0.07	$	(0.02)
Income from discontinued operations		0.06		0.12
Net income	$	0.14	$	0.10
Earnings (loss) per share: Diluted				
Pro Forma				
Income (loss) from continuing operations	$	0.05	$	(0.12)
Income from discontinued operations		0.06		0.12
Net income	$	0.11	$	0.0

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Stock-Based Compensation (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the range of assumptions disclosed in the following table for the periods presented. Expected volatility is calculated using historical volatility of the Company s stock prices over a range of dates equal to the expected term of a grant s options. The expected term is calculated using historical data that is representative of the option for which the fair value is to be determined. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the approximate period of time equivalent to the grant s expected term.

	Nine-Months Ended January 28, 2007	Nine-Months Ended January 22, 2006
Expected volatility	52.17% - 52.50%	52.99% - 55.80%
Weighted-average volatility	52.50%	55.03%
Expected dividends	None	None
Expected term (in years)	1.00 - 5.85	6.62 - 6.51
Risk-free rate	4.64% - 5.22%	4.00% - 4.56%

Additionally, under the Company s Deferred Bonus Plan, the Company issues non-vested stock to eligible officers and employees. The Company amortizes the fair value of the non-vested stock ratably over the vesting period of five years.

The following table presents the number and weighted average grant-date fair value of shares granted, vested and forfeited during the nine months ended January 28, 2007:

	Number of Shares	Weighted Average Fair Value
Non-vested stock at May 1, 2006	121,069	$ 19.60
Shares granted		
Shares vested	(11,074)	19.58
Shares forfeited	(8,013)	20.00
Non-vested stock at January 28, 2007	101,982	$ 19.57

The Company has three stock-based compensation plans, the 1992 Stock Option Plan, the 1993 Stock Option Plan, and the 2000 Stock Option Plan, as amended, which have a maximum of 1,058,750, 4,650,000 and 3,500,000 options, respectively, reserved for issuance and may be granted to directors, officers and employees. The plans provide for the issuance of incentive stock options and nonqualified options which have a maximum term of 10 years and are, generally, exercisable in yearly installments of 20% commencing one year after the date of grant. The Company has 753,608 shares available for future issuance under its equity compensation plans as of January 28, 2007.

A summary of option activity for the nine months ended January 28, 2007 is presented below:

Options	Weighted Average	Aggregate Intrinsic

		Exercise Price	Value
Outstanding options at May 1, 2006	2,932,100	$ 15.85	
Options granted	632,785	25.01	
Options exercised	(242,846)	11.29	
Options forfeited and expired	(200,361)	18.53	
Outstanding options at January 28, 2007	3,121,678	$ 17.88	$ 22,788,249
Outstanding exercisable options at January 28, 2007	1,693,698	$ 13.94	$ 19,029,375
Weighted average fair value of options granted	$ 13.42		

The total intrinsic value of options exercised was $3.2 million during the nine months ended January 28, 2007. Upon the exercise of options, the Company issues new shares. The weighted average fair value of options granted during the nine months ended January 28, 2007 was $13.42. The total fair value of options vested during the nine months ended January 28, 2007 was $5.6 million.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Stock-Based Compensation (continued)

The following table summarizes information about stock options at January 28, 2007:

	Outstanding as of January 28, 2007			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.86 - 5.73	180,929	1.4 years	$ 3.13	180,929	$ 3.13
5.73 - 8.59	308,485	4.6 years	6.50	308,485	6.50
8.59 - 11.46	140,422	2.7 years	10.25	140,422	10.25
11.46 - 14.32	75,829	1.7 years	12.79	75,829	12.79
14.32 - 17.19	476,329	4.7 years	15.51	410,979	15.50
17.19 - 20.05	10,043	2.7 years	17.92	10,043	17.92
20.05 - 22.92	1,046,327	7.3 years	20.36	444,597	20.41
22.92 - 25.78	877,428	7.4 years	24.43	120,528	24.56
25.78 - 28.65	5,886	9.4 years	25.03	1,886	26.83
$ 2.86 - 28.65	3,121,678	6.4 years	$ 17.90	1,693,698	$ 13.94

The weighted average remaining contractual life for options exercisable as of January 28, 2007 is 4.5 years.

4. Discontinued Operations

On February 14, 2006, the Company announced that it had entered into a definitive purchase agreement, dated February 13, 2006 to sell its properties in Bossier City, Louisiana and Vicksburg, Mississippi to privately owned Legends Gaming, LLC for $240 million cash less the Company s portion of closing costs. The sales agreement includes a net working capital adjustment to the purchase price. The transaction closed on July 31, 2006. Therefore, there were no assets held for sale on the consolidated balance sheet as of January 28, 2007. Assets held for sale on the consolidated balance sheet as of April 30, 2006 of $212.1 million relates to $42.8 million of fixed assets at Isle-Vicksburg and $126.3 million of fixed assets and $43.0 million of goodwill and other intangible assets at Isle-Bossier City. In relation to the restatement, $10.4 million was identified as net goodwill at Isle-Bossier City, which related to the acquisition of Isle-Lake Charles that had been inappropriately placed on the Isle-Bossier City s books. As a result the gain on the sale of these assets in the fiscal quarter ended October 29, 2006 was understated. This goodwill has been corrected as a reclassification to Isle-Lake Charles and the pretax gain on the sale of discontinued operations has increased to $24.1 million, pre-tax.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Discontinued Operations

Net revenues, pretax income from discontinued operations, income tax expense (benefit) on discontinued operations, gain on sale of discontinued operations, income tax expense on sale of discontinued operations and income from discontinued operations, which includes Isle-Vicksburg, Isle-Bossier City and Colorado Grande-Cripple Creek are summarized as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**January 28, 2007**	**January 22, 2006 (Restated)**	**January 28, 2007**	**January 22, 2006 (Restated)**
Net revenues	$ 44	$ 40,892	$ 41,370	$ 117,834
Pretax income from discontinued operations	383	3,889	5,545	7,286
Gain on sale of discontinued operations			24,117	
Income taxes from discontinued operations	167	1,879	14,514	3,654
Income from discontinued operations	216	2,010	15,148	3,632

For the three months ended January 28, 2007 and January 22, 2006, there was $0 and $2.5 million, respectively, additional net interest expense allocated to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets of the Company plus the Company s debt that is not attributable to a particular operation. For the nine months ended January 28, 2007 and January 22, 2006, additional net interest expense of $3.2 million and $8.0 million, respectively, has been allocated to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets of the Company plus the Company s debt that is not attributable to a particular operation.

5. Hurricanes and Related Charges

On August 29, 2005, Hurricane Katrina struck the Gulf Coast of Mississippi and Louisiana, which resulted in significant damage to the Company s facility and its casino barge under construction in Biloxi, Mississippi. On December 26, 2005, the Company, using its existing facility, opened a casino as part of the land-based structure that was not severely damaged by the storm.

On September 22, 2005, Hurricane Rita struck the Gulf Coast of Louisiana and Texas, which caused damage to the casino and hotel facilities in Lake Charles, Louisiana. The property was closed for 16 days as a result but subsequently reopened on October 8, 2005.

On October 24, 2005, Hurricane Wilma struck Florida, causing damage to the Company s Pompano Park racing facility. The property was closed until December 2, 2005.

The Company has insurance coverage related to damage from the three hurricanes for property damage incurred, property operating costs during the operational downtime of the hurricanes, incremental costs incurred related to hurricane damage and recovery activities and business interruption insurance for lost profits during the period directly related to the hurricanes. The Company believes it will receive proceeds from its insurance carrier related to all four types of losses the Company has sustained, and through January 28, 2007 has received advances of $98.0 million, of which $28.5 million was received in the third fiscal quarter of 2007 and $47.3 was received in the nine months ended January 28, 2007. The Company recorded an additional receivable of $2.8 million as the result of the receipt of a proof of loss for business interruption-loss of income related to Hurricane Rita at the Isle-Lake Charles and Hurricane Wilma at Pompano Park, which are reflected as other revenue in the accompanying consolidated statement of operations. No cash had been received on this proof of loss, as of January 28, 2007; however, the funds were collected subsequent to the end of the quarter. The Company continues to negotiate with its insurers to settle the claim. The timeline for final settlement of the claim is not yet determinable.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Hurricanes and Related Charges (continued)

During fiscal year 2006, the Company recognized asset impairments and losses of $68.6 million based on assessments of damage at all its locations. During fiscal 2007, the Company recognized an additional $7.2 million of impairment based on further assessments. As part of the restatement, $7.2 million has been reclassified to be reflected in the balance as of October 23, 2005. The Company has also incurred out-of-pocket costs directly related to the hurricanes and the property operating costs related to the period of closure caused by the hurricanes, of $62.2 million during fiscal year 2006. The Company has incurred an additional $18.4 million in the fiscal year 2007, of which $3.3 million was recorded during the third fiscal quarter. The total amount of losses recognized and expenses incurred of $159.9 million has been recorded as Hurricane related charges, net and has been offset by $155.1 million, which the Company believes is probable that it will collect from its insurance carriers under its policy coverage. The remaining amount of $4.8 million represents the Company s deductible portion of its claims, which was recorded during fiscal year 2006. As discussed, the Company has been receiving advances against its insurance claims from the applicable insurance carriers and believes it may ultimately collect more than the $159.9 million of gross receivable recorded in the financial statements due to its replacement value coverage for its property damage and the lost profits component of its coverage. The Company will recognize any amounts in excess of the recorded loss as gains when it and the insurance carriers agree to the final amounts to be paid to the Company for the losses sustained. The following table shows the activity flowing through the insurance accounts:

	Items Incurred as of January 28, 2007
Property impairment	$ 76,239
Incremental costs incurred	80,838
Loss of income*	2,817
Hurricane related charges	(4,776)
Insurance receivable, gross	$ 155,168
Insurance receipts	(98,015)
Insurance receivable, net	$ 57,103

* Represents business interruption claim for loss of income for which a proof of loss has been received.

6. Goodwill and Other Intangible Assets

As part of the restatement, it was discovered that in fiscal 2001, the Company had recorded licenses and goodwill related to one of its Lake Charles riverboats in error at its Bossier City property. This error resulted in the miscalculation of the pretax gain on sale of discontinued operations in the second quarter of fiscal 2007 related to the disposal of Isle-Bossier City, which had been classified as an asset held for sale prior to its disposal. The total amount of the reclassification is $10.4 million, which is net of accumulated amortization.

The Company has also recorded a correction to other intangible related to customer list acquired during the Lady Luck Gaming Corporation acquisition in fiscal year 2000. These lists should have been fully amortized over a three-year service life. The balance of trademarks and player database has been restated to reflect the correction. The net effect is a reduction of trademarks and player database in the amount of $4.0 million. Additionally, $1.3 million of net intangible assets, also related to the Lady Luck acquisition, which had previously been classified in error to other intangible asset was reclassified as part of the restatement to Goodwill.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Goodwill and Other Intangible Assets (continued)

The Company has written off $3.5 million of net goodwill at Isle-Biloxi, related to berthing costs improperly booked as goodwill. This amount has been written off in relation to the restatement in a period prior to the financial statements contained in this filing.

Please refer to Note 2 for further discussion of these items.

	Goodwill	Gaming Licenses	Trademarks & Player database	Other Intangibles, net	Total Goodwill and Other intangibles
April 30, 2006 balance (As Previously Reported)	**$ 296,354**	**$ 57,224**	**17,565**	**$ 74,789**	**$ 371,143**
Biloxi berthing rights	**(3,493)**				**(3,493)**
Lady Luck customer lists			(4,018)	**(4,018)**	**(4,018)**
Lady Luck misclassification	**1,347**		(1,347)	**(1,347)**	
Lake Charles / Bossier City misclassification	**3,372**	6,994		**6,994**	**10,366**
Waterloo net present value adjustment		(2,603)		**(2,603)**	**(2,603)**
Purchase accounting adjustments	**6,972**				**6,972**
April 30, 2006 balance (Restated)	**$ 304,552**	**$ 61,615**	**$ 12,200**	**$ 73,815**	**$ 378,367**
Balance, January 28, 2007 (Unaudited)	**$ 304,552**	**$ 61,615**	**$ 12,200**	**$ 73,815**	**$ 378,367**

7. Long-Term Debt

	January 28, 2007	April 30, 2006
	(In thousands)	
Long-term debt consists of the following:		
7% Senior Subordinated Notes (described below)	$ 500,000	$ 500,000
9% Senior Subordinated Notes (described below)	200,000	200,000
Senior Secured Credit Facility (described below)		
Variable rate term loan	294,250	296,500
Revolver		
Isle-Black Hawk Senior Secured Credit Facility, non-recourse to Isle of Capri Casinos, Inc. (described below)		
Variable rate term loan Tranche C	187,625	189,050
Revolver	17,400	20,600
Isle-Black Hawk Special Assessment BID Bonds, non-recourse to Isle of Capri Casinos, Inc. (described below)	411	472
Blue Chip Credit Facility (7.25% at January 28, 2007) due July 2009; non-recourse to Isle of Capri Casinos, Inc. (described below)	6,694	6,563
Variable rate TIF Bonds due to City of Bettendorf (described below)	2,308	2,926
Variable rate General Obligation Bonds due to City of Davenport (described below)	1,505	1,675
Other	3,361	3,494
	1,213,554	1,221,280
Less current maturities	8,602	8,588

Long-term debt	$ 1,204,952	$ 1,212,692

The following is a brief of the Company s borrowing arrangements. Certain of these arrangements contain financial covenants.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (continued)

7% Senior Subordinated Notes

On March 3, 2004, the Company issued $500.0 million of 7% Senior Subordinated Notes due 2014 (7% Senior Subordinated Notes). The 7% Senior Subordinated Notes are guaranteed by all of the Company s significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk and the Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 12. 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, including the $200 million in aggregate principal amount of the existing 9% Senior Subordinated Notes, and senior to any future subordinated indebtedness. Interest on the 7% Senior Subordinated Notes is payable semi-annually on each March 1 and September 1 through maturity. The 7% Senior Subordinated Notes are redeemable, in whole or in part, at the Company s 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 1 of the years indicated below:

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

Additionally, the Company may redeem a portion of the 7% Senior Subordinated Notes with the proceeds of specified equity offerings.

The Company issued the 7% Senior Subordinated Notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

The Company s failure to timely file this Form 10-Q resulted in a default under the terms of the indenture. The Company provided notice of the default to the trustee as required by the indenture. Upon filing this Form 10-Q, the default is no longer continuing and is considered remedied.

9% Senior Subordinated Notes

On March 27, 2002, the Company issued $200.0 million of 9% Senior Subordinated Notes due 2012 (9% Senior Subordinated Notes). The 9% Senior Subordinated Notes are guaranteed by all of the Company s significant domestic subsidiaries, excluding the subsidiaries that own and operate the Isle-Black Hawk and Colorado Central Station-Black Hawk, and other subsidiaries as described more fully in Note 12. The 9% 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, including the $500.0 million in aggregate principal amount of the existing 7% Senior Subordinated Notes and senior to any future subordinated indebtedness. Interest on the 9% Senior Subordinated Notes is payable semi-annually on each March 15 and September 15 through maturity. The 9% Senior Subordinated Notes are redeemable, in whole or in part, at the Company s option at any time on or after March 15, 2007, 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 15 of the years indicated below:

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (continued)

9% Senior Subordinated Notes (continued)

Year	Percentage
2007	104.500%
2008	103.000%
2009	101.500%
2010 and thereafter	100.000%

The Company issued the 9% Senior Subordinated Notes under an indenture between the Company, the subsidiary guarantors and a trustee. The indenture, among other things, limits the ability of the Company and its restricted subsidiaries to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates or pay dividends on or repurchase its stock or its restricted subsidiaries stock. The Company is also limited in its ability to issue and sell capital stock of its subsidiaries and in its ability to sell assets in excess of specified amounts or merge with or into other companies.

The Company s failure to timely file this Form 10-Q resulted in a default under the terms of the indenture. The Company provided notice of the default to the trustee as required by the indenture. Upon filing this Form 10-Q, the default is no longer continuing and is considered remedied.

Senior Secured Credit Facility

On February 4, 2005, the Company entered into an amended senior secured credit facility, which provides for a $400.0 million revolving credit facility maturing on February 4, 2010 and a $250.0 million term loan facility maturing on February 4, 2011 (or February 6, 2012 if the Company elects to refinance its existing 9% Senior Subordinated Notes currently due in March 2012). On August 3, 2005, the Company exercised its option for a delayed draw term loan for an additional $50.0 million. The draw was accessed in anticipation of funding the Company s ongoing development projects. At the Company and the lead arranger s mutual discretion, the Company may increase the revolver and/or term loan, in an aggregate amount up to $200.0 million subject to certain conditions. The term loans are payable in quarterly installments beginning on March 31, 2005 and ending on February 4, 2011 unless extended as described above. The revolving credit facility may bear interest at the Company s option (1) the higher of 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 1.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of up to 2.75%. The term loan may bear interest at the Company s option (1) the higher of 0.5% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 0.75% or (2) a rate tied to a LIBOR rate plus an applicable margin of 1.75%.

The Company is required to pay an annual commitment fee of 0.5% of the unused revolving facility.

The senior secured credit facility provides for certain covenants, including those of a financial nature. The senior secured credit facility is secured by liens on substantially all of the Company s assets and guaranteed by all of its restricted subsidiaries. There has been no material defaults. However, as a result of the Company s delay in filing this Form 10-Q, the Company did not meet its obligation to file certain financial reporting requirements. On March 15, 2007, the Company received a limited waiver on meeting these financial reporting requirements through June 15, 2007. Upon the filing of this Form 10-Q, the Company will have met this obligation.

The weighted average effective interest rate of total debt outstanding under the senior secured credit facility at January 28, 2007, was 7.91%.

At January 28, 2007, the Company had $294.3 million outstanding under the senior secured term loan credit facility and no outstanding balance under the revolving credit facility.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (continued)

Isle-Black Hawk Senior Secured Credit Facility

On October 24, 2005, Isle of Capri Black Hawk, L.L.C. (Isle-Black Hawk), a joint venture company that owns and operates two casinos in Black Hawk, Colorado, which is owned 57% by the Company and 43% by a subsidiary of Nevada Gold & Casinos, Inc., entered into a $240.0 million Second Amended and Restated Credit Agreement which provides for a $50.0 million revolving credit facility maturing the earlier of October 24, 2010 or such date as the term loan facility is repaid in full and a $190.0 million term loan facility maturing on October 24, 2011. At Isle-Black Hawk and the lead arranger s mutual discretion, Isle of Capri Black Hawk, L.L.C. may increase the size of the revolver and/or term loan facility, in an aggregate amount up to $25.0 million subject to certain conditions. The term loans are payable in quarterly installments beginning on December 30, 2005 and ending on September 30, 2011. The revolving loans may bear interest at Isle-Black Hawk s option at (1) the higher of 0.5% in excess of the federal funds effective rate or the rate that the lead arranger announces from time to time as its prime lending rate plus an applicable margin up to 1.25% or (2) a rate tied to a LIBOR rate plus an applicable margin up to 2.25%. The term loans may bear interest at Isle-Black Hawks option at (1) the higher of 0.5% in excess of the federal funds effective rate or the rate that the lead arranger announces from time to time as its prime lending rate, plus an applicable margin of 1.00% or (2) a rate tied to a LIBOR rate plus an applicable margin of 2.00%. The Isle-Black Hawk is required to pay an annual commitment fee of 0.5% of the unused portion of the revolving facility. The credit agreement is secured by liens on substantially all of Isle-Black Hawk s assets. The credit agreement contains customary representations and warranties and affirmative and negative covenants and is non-recourse to the Company.

Effective January 26, 2007, the Isle-Black Hawk Senior secured credit facility was amended to adjust for certain financial covenants. As of January 28, 2007, Isle-Black Hawk was in compliance with all financial covenants.

The weighted average effective interest rate of total debt outstanding under the Isle-Black Hawk senior secured credit facility at January 28, 2007, was 6.81%.

Interest Rate Swap Agreements

The Isle-Black Hawk has interest rate swap agreements with an aggregate notional value of $80.0 million, or 39.0% of its variable rate term debt outstanding under the Isle-Black Hawk s senior secured credit facility as of January 28, 2007. The swap agreements effectively convert portions of its variable rate debt to a fixed-rate basis until they terminate which starts in the first fiscal quarter of 2008 and continues through the fourth quarter of 2008, thus reducing the impact of interest rate changes on future interest expense. The swaps are not designated as effective hedges. Accordingly, the Company has recognized expense totaling $0.3 million and $0.7 million due to the change in the fair value of the instrument for the three and nine months ended January 28, 2007.

Isle-Black Hawk Special Assessment BID Bonds

In July 1998, the Black Hawk Business Improvement District (the BID), issued $2.9 million in 6% bonds due on December 1, 2009. The proceeds from the sale of the bonds were used to fund road and utility improvements in the Special Improvement District 1997-1, of which the Isle-Black Hawk is a member. The total costs of the improvements amounted to $2.2 million with the excess proceeds being returned to the bondholders by the BID. The Isle-Black Hawk is responsible for 50% of this amount plus interest, which is non-recourse to the Isle of Capri Casinos, Inc. In April 2000, the Isle-Black Hawk made the first of twenty semi-annual payments of $0.1 million in the form of special property tax assessments levied on the improvement project. This amount is calculated by amortizing $1.1 million, or 50% of the net bond proceeds, over twenty periods at an interest rate of 6.25%. The difference between the bond rate of 6% and the 6.25% assessed is to cover administrative costs of the BID related to the issuance.

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (continued)

Blue Chip Credit Facility

Blue Chip has an agreement with the Bank of Scotland to borrow up to £3.5 million ($6.9 million as of January 28, 2007) to fund its casino development program. As of January 28, 2007, £3.4 million ($6.7 million) is outstanding. The term loan is to be repaid in quarterly payments that commenced in July 2005, and extends to April 2009. The interest rate is either, at Blue Chip s option, the Bank of Scotland s base rate or LIBOR plus a variable margin. As of January 28, 2007 the variable margin rate was 2.00%. This debt is non-recourse to the Company.

Blue Chip was in compliance with all covenants as of January 28, 2007.

Isle-Bettendorf TIF Bonds

As part of the restatement, the Company identified adjustments to both interest expense and interest income. For the year ended April 25, 2004, interest expense has been reduced and interest receivable has been increased for $1.0 million related to an adjustment for an incorrectly calculated accrual. For the fiscal year ended April 24, 2005, interest expense and accounts payable have been reduced by $0.1 million to correct for an overstatement of interest related to TIF bonds held by Isle-Bettendorf. For the fiscal year ended April 30, 2006, interest expense and accounts payable have been increased by $0.2 million to correct for an accrual which had been incorrectly calculated.

As part of the City of Bettendorf Development Agreement dated June 17, 1997, the City of Bettendorf issued $9.6 million in tax incremental financing bonds (TIF Bonds), which was used by the Isle-Bettendorf to construct an overpass, parking garage, related site improvements and pay for disruption damages caused by construction of the overpass. To enable financing of the City of Bettendorf s obligations, the Isle-Bettendorf will pay incremental property taxes on the developed property assessed at a valuation of not less than $32.0 million until the TIF Bonds mature. In the event that the taxes generated by the project and other qualifying developments in the redevelopment district do not fund the repayment of the total TIF Bonds prior to their scheduled maturity, the Isle-Bettendorf will pay the City of Bettendorf $0.25 per person for each person entering the boat until the remaining balance has been repaid.

Rhythm City Davenport General Obligation Bonds

In 2002, The Rhythm City-Davenport entered into an agreement with the City of Davenport whereby the City of Davenport has constructed a sky-bridge connecting to the Rhythm City-Davenport s facility, allowing safer access across the street and railroad tracks. In February 2004, the City of Davenport issued $1.8 million in ten-year general obligation tax-exempt bonds at an average interest rate of 3.1% in connection with the Isle-Davenport s portion of the cost of the sky-bridge. The Isle-Davenport is required to make annual payments of principal and interest to the City of Davenport to retire the bonds.

Lines of Credit

As of January 28, 2007, the Company has $413.9 million of capacity under its lines of credit and available term debt which consisted of $381.0 million in unused credit capacity under the revolving loan commitment on the senior secured credit facility, $28.6 million of unused credit capacity under the Isle-Black Hawk s senior secured credit facility, (limited to use by the Isle-Black Hawk and $4.2 million under other lines of credit and available term debt. As of April 30, 2006 capacity available under the liens of credit and available term debt was $361.2 million.

8. Arena Coventry Convention Center Lease

In fiscal 2004, a wholly owned subsidiary of the Company entered into an agreement (the Lease) to lease space for a new casino in Coventry, England in the sub-level of the Arena Coventry Convention Center, which was developed, owned and is operated by a non-affiliated entity. The lease term is twenty-five years with the option to terminate after fifteen years. It was determined that due to certain structural elements installed by the Company during the construction of the space being leased, the Company is required to be treated, for accounting purposes only, as the owner of the Arena Coventry Convention Center, in accordance with Emerging Issues task Force 97-10, The Effect of Lessee Involvement in

Asset Construction (EITF 97-10).

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Arena Coventry Convention Center Lease (continued)

Based on the agreement, the annual base rent is set for five-year periods and upon each 5th anniversary the rent is renegotiated by the parties to the agreement. The Company will be required to pay all of the costs associated with the operation of leased portion of the facility, including costs such as insurance, taxes and maintenance. The Lease imposes certain obligations on the Company and grants certain rights to the landlord in the event the Company defaults on the Lease. The Lease contains other customary representations, warranties, obligations, conditions, indemnification provisions, and termination provisions associated with leases of this nature.

As a result of the provisions in the Lease that are indicative of continuing involvement by the Company, the Lease qualifies as a financing method lease rather than a sale under sale-leaseback accounting for real estate. As a result, the Company initially recorded fixed assets as well as an offsetting other long-term obligation in the amount of £28.4 million (or $50.9 million), even though we do not own these assets, are not the obligor on the corresponding other long-term obligation and do not participate in or control the operations of the Arena Coventry Convention Center. This amount does not include the portion of the construction costs paid directly by the Company as they are included separately in the Company s fixed assets. The related assets and other long term obligation will be reflected in the Company s accompanying consolidated balance sheet until completion of the lease term, when they will be removed from the Company s financial statements, and any remaining obligation will be recognized as a gain on sale of the facility and equipment. Future minimum lease payments due under the financing method lease obligation, as of January 28, 2007, were £0.1 million (or $0.2 million) in 2007, £0.6 million (or $1.1 million) in 2008, £0.6 (or $1.2 million) in 2009, £0.6 (or $1.2 million) in 2010, £0.6 (or $1.2 million) in 2011, and £19.3 million (or $37.8 million) thereafter, all of which represent interest using the effective interest method.

9. Accumulated Comprehensive Income

Accumulated comprehensive income consists of the following:

Balance, April 30, 2006 (Unaudited) (Restated)	$ 130
Foreign currency translation adjustment	740
Balance, July 30, 2006 (Restated)	870
Foreign currency translation adjustment	729
Balance, October 29, 2006 (Restated)	1,599
Foreign currency translation adjustment	1,656
Balance, January 28, 2007	$ 3,255

Foreign currency translation adjustment has been restated as of April 30, 2006, July 20, 2006 and October 29, 2006 for $0.4 million, $0.2 million and $0.1 million, respectively. These restatements are in relation to the correction in lease accounting related to the Arena in Coventry, England as described in Note 2. As a result of the operations of the Company s international subsidiaries with functional currencies other than the U.S. dollar, a resulting currency translation adjustment is

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Accumulated Comprehensive Income (continued)

necessary. The assets and liabilities of the Company s international subsidiaries are translated using the exchange rate in effect at the balance sheet date, with the resulting translation adjustment recognized as accumulated other comprehensive income.

The following table sets forth total comprehensive income for the three and nine months ended January 28, 2007 and January 22, 2006. Foreign currency translation adjustment has been restated for the three and nine months ended January 28, 2007 by $0.2 million and $0.2 million, respectively.

	Three Months Ended		Nine Months Ended	
	January 28, 2007	January 22, 2006	January 28, 2007	January 22, 2006
(In thousands)		(Restated)		(Restated)
Net Income	$ 9,491	$ 4,231	$ 7,467	$ 2,998
Foreign currency translation adjustment	1,656	494	3,125	(3,541)
Total comprehensive income	$ 7,835	$ 4,275	$ 10,592	$ (543)

10. Contingencies

Lady Luck Gaming Corporation (now a wholly owned subsidiary of the Company) and several joint venture partners are defendants in a lawsuit brought by the country of Greece through its Minister of Tourism (now Development) and Finance. The action alleges that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. The payment the Company is alleged to have been required to make totals approximately 6.5 million Euros (which was approximately $8.3 million as of January 28, 2007 based on published exchange rates). Although it is difficult to determine the damages being sought from the lawsuit, the action may seek damages up to that aggregate amount plus interest from the date of the action. The Athens Civil Court of First Instance granted judgment in the Company s favor and dismissed the lawsuit, but the Ministry appealed the matter and the appeal was heard before the Athens Appeal Court of First Instance. The Athens Appeal Court issued certified copies of judgments denying the Ministry s appeal. The Ministry elected to appeal this matter further to the Supreme Court. During October 2005, the Administrative Supreme Court remanded the matter back to the Athens Administrative Appeals Court for a hearing on the merits. The hearing took place during November 2006, and a decision is expected sometime during 2007. The civil matter was set for hearing before the Greek Supreme Court during May 2006; however, prior to the scheduled hearing date, the Greek Supreme Court reset the hearing for January 8, 2007. The case was heard as scheduled, and a decision is expected in mid to late 2007. The Company intends to continue a vigorous and appropriate defense to the claims asserted in this matter.

The Company is subject to certain federal, state and local environmental protection, health and safety laws, regulations and ordinances that apply to businesses generally, and is subject to cleanup requirements at certain of its facilities as a result thereof. The Company has not made, and does not anticipate making, material expenditures, nor does it anticipate incurring delays with respect to environmental remediation or protection. However, in part because the Company s 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 that the Company will not experience material liabilities or delays.

The Company is subject to various contingencies and litigation matters and has a number of unresolved claims. Although the ultimate liability of these contingencies, litigation and claims cannot be determined at this time, the Company believes that they will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. 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 January 28, 2007	Three Months Ended January 22, 2006 (Restated)	Nine Months Ended January 28, 2007	Nine Months Ended January 22, 2006 (Restated)
Numerator:				
Income (loss) applicable to common shares:				
Income (loss) from continuing operations	$ (9,707)	$ 2,221	$ (7,681)	$ (633)
Discontinued operations:				
Income (loss) from discontinued operations, including gain on sale, net of taxes	216	2,010	15,148	3,632
Net income (loss)	$ (9,491)	$ 4,231	$ 7,467	$ 2,999
Denominator:				
Denominator for basic earnings (loss) per share weighted average shares	30,371	29,951	30,379	30,054
Effect of dilutive securities				
Employee stock options and nonvested restricted stock		1,091		
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	30,371	31,042	30,379	30,054
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.32)	$ 0.07	$ (0.25)	$ (0.02)
Income (loss) from discontinued operations	0.01	0.07	0.50	0.12
Net income (loss)	$ (0.31)	$ 0.14	$ 0.25	$ 0.10
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.32)	$ 0.07	$ (0.25)	$ (0.02)
Income (loss) from discontinued operations	0.01	0.06	0.50	0.12
Net income (loss)	$ (0.31)	$ 0.13	$ 0.25	$ 0.10

The Company computed basic earnings per share by dividing net income by the weighted average number of shares outstanding for the period. The Company reported a loss from continuing operations for the three and nine months ended January 28, 2007 and thus reported no dilutive effect upon the number of shares outstanding for the calculation of diluted earnings per share for those time periods. For the three months ended January 22, 2006, diluted earnings per share was determined as net income divided by the weighted average number of shares outstanding for the period, after applying the treasury method to determine any incremental shares associated with stock options outstanding. The Company reported a net loss from continuing operations for the three and nine months ended January 22, 2006 and thus reported no dilutive effect upon the number of shares outstanding for the calculation of diluted earnings per share for this time period. Anti-dilutive stock options were excluded from the calculation of potential common shares for diluted earnings per share. If the weighted average anti-dilutive shares were included for the three months ended January 22, 2006, the impact would have been a reduction of 20,954 shares.

Any options with an exercise price in excess of the average market price of the Company s common stock during the periods presented are not considered when calculating the dilutive effect of stock options for diluted earnings per share calculations.

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information

Certain of the Company s subsidiaries have fully and unconditionally guaranteed the payment of all obligations under the Company s 9% Senior Subordinated Notes and 7% Senior Subordinated Notes. The following tables present the consolidating condensed balance sheets as of January 28, 2007 and April 30, 2006, statements of operations for the three and nine months ended January 28, 2007 and January 22, 2006 and statements of cash flows for the nine months ended January 28, 2007 and January 22, 2006 of the parent company, guarantor subsidiaries and non-guarantor subsidiaries of the Isle of Capri Casinos, Inc.

ISLE OF CAPRI CASINOS, INC.

CONSOLIDATING CONDENSED GUARANTOR SUBSIDIARIES, NON-GUARANTOR SUBSIDIARIES,

AND PARENT COMPANY FINANCIAL INFORMATION

AS OF JANUARY 28, 2007 AND APRIL 30, 2006 AND FOR

THE THREE AND NINE MONTHS ENDED JANUARY 28, 2007 AND JANUARY 22, 2006

UNAUDITED

(In thousands)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
	As of January 28, 2007				
Balance Sheet					
Current assets	$ 62,046	$ 157,312	$ 73,621	$ (25,784)	$ 267,195
Intercompany receivables	943,470	(278,343)	27,162	(692,289)	
Investments in subsidiaries	286,835	279,407	(30,685)	(535,557)	
Property and equipment, net	15,373	823,581	358,034		1,196,988
Other assets	17,815	369,429	34,755	(5,800)	416,199
Total assets	$ 1,325,530	$ 1,345,567	$ 424,855	$ (1,259,430)	$ 1,880,382
Current liabilities	$ 53,569	$ 121,393	$ 82,717	$ (29,998)	$ 227,681
Intercompany payables		557,932	132,961	(690,893)	
Long-term debt, less current maturities	991,250	5,786	207,916		1,204,952
Other accrued liabilities	(10,329)	87,822	45,576		123,069
Minority interest				27,248	27,248
Stockholders equity	291,858	577,644	(6,283)	(565,787)	297,432
Total liabilities and stockholders equity	$ 1,325,530	$ 1,345,567	$ 424,855	$ (1,259,430)	$ 1,880,382

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
	For the Nine-Months Ended January 28, 2007				
Statement of Income					
Revenues:					
Casino	$	$ 619,241	$ 140,774	$	$ 760,015
Rooms, food, beverage and other	142	126,516	35,621	(11,181)	151,098
Gross revenues	142	745,757	176,395	(11,181)	911,113
Less promotional allowances		130,504	32,569		163,073
Net revenues	142	615,253	143,826	(11,181)	748,040
Operating expenses:					
Casino	598	98,433	23,616		122,647
Gaming taxes		134,738	26,420		161,158
Rooms, food, beverage and other	35,234	234,692	77,570	(11,451)	336,046
Management fee expense (revenue)	(23,917)	23,809	108		
Depreciation and amortization	1,253	56,779	14,911		72,943
Total operating expenses	14,311	544,879	145,685	(11,451)	693,424
Operating income	(14,169)	70,374	(1,859)	270	54,616
Interest expense, net	(18,867)	(26,382)	(15,116)		(60,365)
Minority interest				(2,216)	(2,216)
Loss on Extinguishment of Debt					
Equity in income (loss) of subsidiaries	29,453	6,004	(11,464)	(23,993)	
Income (loss) from continuing operations before income taxes	(3,583)	49,996	(28,439)	(25,939)	(7,965)
Income tax expense (benefit)	1,065	0	(718)		347
Income (loss) from continuing operations	(366)	48,336	(27,643)	(25,939)	(5,612)
Income (Loss) from discontinued operations, net of taxes	0	15,148			15,148
Net income (loss)	$ (3,410)	$ 60,786	$ (23,976)	$ (25,939)	$ 7,467

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
	For the Three-Months Ended January 28, 2007				
Statement of Income					
Revenues:					
Casino	$	$ 188,981	$ 44,177	$	$ 233,158
Rooms, food, beverage and other	90	40,090	10,760	(3,573)	47,367
Gross revenues	90	229,071	54,937	(3,573)	280,525
Less promotional allowances		39,908	9,772		49,680
Net revenues	90	189,163	45,165	(3,573)	230,845
Operating expenses:					
Casino	201	31,089	7,319		38,609
Gaming taxes		41,709	8,030		49,739
Rooms, food, beverage and other	11,581	74,597	25,217	(3,390)	108,005
Management fee expense (revenue)	(6,923)	6,760	163		
Depreciation and amortization	432	18,852	5,419		24,703
Total operating expenses	5,291	173,007	46,148	(3,390)	221,056
Operating income	(5,201)	16,156	(983)	(183)	9,789
Interest expense, net	(7,190)	(8,374)	(5,104)		(20,668)
Minority interest				(598)	(598)
Loss on Extinguishment of Debt					
Equity in income (loss) of subsidiaries	(857)	3,055	(5,268)	3,070	
Income (loss) from continuing operations before income taxes	(13,248)	10,837	(11,355)	2,289	(11,477)
Income tax expense (benefit)	12,185	10,590	(175)		(1,770)
Income (loss) from continuing operations	1,063	247	(11,180)	2,289	(9,707)
Income (Loss) from discontinued operations, net of taxes	90	126			216
Net income (loss)	$ (973)	$ 373	$ (11,180)	$ 2,289	$ (9,491)

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
		For the Nine Months Ended January 28, 2007			
Statement of Cash Flows					
Net cash provided by (used in) operating activities	$ 51,094	$ (11,719)	$ 24,623	$ (13,083)	$ 50,915
Net cash provided by (used in) investing activities	(38,494)	4,209	(18,726)	21,810	(31,201)
Net cash provided by (used in) financing activities	(4,460)	5,272	(2,824)	(8,727)	(10,739)
Effect of foreign currency exchange rates on cash and cash equivalents			9		9
Net increase (decrease) in cash and cash equivalents	8,140	(2,238)	3,082		8,984
Cash and cash equivalents at beginning of the period	29,193	67,590	24,100		120,883
Cash and cash equivalents at end of the period	$ 37,333	$ 65,352	$ 27,182	$	$ 129,867

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
			As of April 30, 2006 (Restated)		
Balance Sheet					
Current assets	$ 47,112	$ 381,686	$ 55,975	$ (12,826)	$ 471,947
Intercompany receivables	980,029	(365,151)	70,539	(685,417)	
Investments in subsidiaries	259,565	273,403	(19,221)	(513,747)	
Property and equipment, net	5,801	642,080	332,723		980,604
Other assets	19,516	362,137	39,794	(5,800)	415,647
Total assets	$ 1,312,023	$ 1,294,155	$ 479,810	$ (1,217,790)	$ 1,868,198
Current liabilities	$ 37,283	$ 126,897	$ 77,801	$ (16,768)	$ 225,213
Intercompany payables		551,749	132,272	(684,021)	
Long-term debt, less current maturities	993,500	6,692	212,500		1,212,692
Other accrued liabilities	(9,056)	92,049	37,984		120,977
Minority interest				26,690	26,690
Stockholders' equity	288,899	518,165	19,253	(543,691)	282,626
Total liabilities and stockholders' equity	$ 1,312,023	$ 1,294,155	$ 479,810	$ (1,217,790)	$ 1,868,198

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Isle of Capri Casinos, Inc. Consolidated
		For the Three-Months Ended January 22, 2006			
Statement of Income					
Revenues:					
Casino	$	$ 185,165	$ 49,789	$	$ 234,954
Rooms, food, beverage and other	(39)	30,231	10,554	(2,855)	37,891
Gross revenues	(39)	215,396	60,343	(2,855)	272,845
Less promotional allowances		33,533	10,288		43,821
Net revenues	(39)	181,863	50,055	(2,855)	229,024
Operating expenses:					
Casino	213	26,297	8,490		35,000
Gaming taxes		43,183	9,685		52,868
Rooms, food, beverage and other	7,778	62,872	26,027	(2,820)	93,857
Management fee expense (revenue)	(8,317)	8,231	86		
Depreciation and amortization	410	16,911	4,637		21,958
Total operating expenses	84	157,494	48,925	(2,820)	203,683
Operating income	(123)	24,369	1,130	(35)	25,341
Interest expense, net		(18,162)	(502)		(18,664)
Minority interest		1		(440)	(439)
Loss on Extinguishment of Debt			(2,110)		(2,110)
Equity in income (loss) of subsidiaries	15,130	1,501	(2,083)	(14,548)	
Income (loss) from continuing operations before income taxes	10,410	(2,969)	(6,201)	(15,023)	4,128
Income tax expense (benefit)	4,852	(1,879)	(1,066)		1,907
Income (loss) from continuing operations	5,558	(1,090)	(5,135)	(15,023)	2,221
Income (Loss) from discontinued operations, net of taxes		2,177	(167)		2,010
Net income (loss)	$ 5,558	$ 1,087	$ (5,302)	$ (15,023)	$ 4,231

Table of Contents

ISLE OF CAPRI CASINOS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Consolidating Condensed Financial Information (continued)

	Isle of Capri Casinos, Inc. (Parent Obligor)	(a) Guarantor Subsidiaries	(b) Non-Guarantor Subsidiaries