

ISLE OF CAPRI CASINOS INC  
Form 10-Q  
December 04, 2014

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

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended October 26, 2014

OR

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

For the transition period from                      to

Commission File Number 0-20538

**ISLE OF CAPRI CASINOS, INC.**

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-1659606**

(I.R.S. Employer  
Identification Number)

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

(Address of principal executive offices)

**63141**

(Zip Code)

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

As of December 1, 2014, the Company had a total of 40,027,800 shares of Common Stock outstanding (which excludes 2,038,348 shares held by us in treasury).

**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ISLE OF CAPRI CASINOS, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

|                                                                                                                               | October 26,<br>2014<br>(unaudited) | April 27,<br>2014 |
|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------|
| <b><u>ASSETS</u></b>                                                                                                          |                                    |                   |
| Current assets:                                                                                                               |                                    |                   |
| Cash and cash equivalents                                                                                                     | \$ 68,794                          | \$ 69,830         |
| Marketable securities                                                                                                         | 27,052                             | 27,289            |
| Accounts receivable, net                                                                                                      | 11,280                             | 12,615            |
| Income taxes receivable                                                                                                       | 203                                | 73                |
| Deferred income taxes                                                                                                         | 3,898                              | 4,106             |
| Prepaid expenses and other assets                                                                                             | 21,779                             | 18,526            |
| Total current assets                                                                                                          | 133,006                            | 132,439           |
| Property and equipment, net                                                                                                   | 935,930                            | 955,604           |
| Other assets:                                                                                                                 |                                    |                   |
| Goodwill                                                                                                                      | 108,970                            | 108,970           |
| Other intangible assets, net                                                                                                  | 54,492                             | 54,911            |
| Deferred financing costs, net                                                                                                 | 21,200                             | 23,439            |
| Restricted cash and investments                                                                                               | 9,149                              | 9,807             |
| Prepaid deposits and other                                                                                                    | 4,825                              | 4,904             |
| Total assets                                                                                                                  | \$ 1,267,572                       | \$ 1,290,074      |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                                                                            |                                    |                   |
| Current liabilities:                                                                                                          |                                    |                   |
| Current maturities of long-term debt                                                                                          | \$ 233                             | \$ 230            |
| Accounts payable                                                                                                              | 19,813                             | 20,869            |
| Accrued liabilities:                                                                                                          |                                    |                   |
| Payroll and related                                                                                                           | 37,935                             | 34,700            |
| Property and other taxes                                                                                                      | 24,750                             | 20,360            |
| Interest                                                                                                                      | 16,658                             | 16,920            |
| Progressive jackpots and slot club awards                                                                                     | 16,700                             | 16,306            |
| Other                                                                                                                         | 20,773                             | 18,478            |
| Total current liabilities                                                                                                     | 136,862                            | 127,863           |
| Long-term debt, less current maturities                                                                                       | 1,034,182                          | 1,066,071         |
| Deferred income taxes                                                                                                         | 37,628                             | 35,870            |
| Other accrued liabilities                                                                                                     | 18,420                             | 18,495            |
| Other long-term liabilities                                                                                                   | 22,357                             | 22,391            |
| Stockholders' equity:                                                                                                         |                                    |                   |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued                                                    |                                    |                   |
| Common stock, \$.01 par value; 60,000,000 shares authorized; shares issued: 42,066,148 at October 26, 2014 and April 27, 2014 | 421                                | 421               |
| Class B common stock, \$.01 par value; 3,000,000 shares authorized; none issued                                               |                                    |                   |
| Additional paid-in capital                                                                                                    | 247,450                            | 247,819           |

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|                                                                                      |              |              |
|--------------------------------------------------------------------------------------|--------------|--------------|
| Retained earnings (deficit)                                                          | (205,251)    | (201,913)    |
|                                                                                      | 42,620       | 46,327       |
| Treasury stock, 2,033,907 shares at October 26, 2014 and 2,236,971 at April 27, 2014 | (24,497)     | (26,943)     |
| Total stockholders' equity                                                           | 18,123       | 19,384       |
| Total liabilities and stockholders' equity                                           | \$ 1,267,572 | \$ 1,290,074 |

See notes to the consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

|                                                              | Three Months Ended  |                     | Six Months Ended    |                     |
|--------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                              | October 26,<br>2014 | October 27,<br>2013 | October 26,<br>2014 | October 27,<br>2013 |
| Revenues:                                                    |                     |                     |                     |                     |
| Casino                                                       | \$ 255,445          | \$ 246,508          | \$ 510,517          | \$ 497,342          |
| Rooms                                                        | 8,474               | 8,713               | 16,786              | 17,628              |
| Food, beverage, pari-mutuel and other                        | 34,435              | 32,597              | 68,558              | 66,719              |
| Gross revenues                                               | 298,354             | 287,818             | 595,861             | 581,689             |
| Less promotional allowances                                  | (59,437)            | (56,197)            | (115,295)           | (112,055)           |
| Net revenues                                                 | 238,917             | 231,621             | 480,566             | 469,634             |
| Operating expenses:                                          |                     |                     |                     |                     |
| Casino                                                       | 40,275              | 39,793              | 80,403              | 80,061              |
| Gaming taxes                                                 | 64,403              | 62,451              | 128,870             | 125,129             |
| Rooms                                                        | 1,849               | 1,872               | 3,752               | 3,773               |
| Food, beverage, pari-mutuel and other                        | 10,674              | 10,315              | 22,046              | 21,117              |
| Marine and facilities                                        | 14,488              | 14,382              | 29,207              | 29,001              |
| Marketing and administrative                                 | 59,858              | 59,640              | 120,219             | 118,890             |
| Corporate and development                                    | 6,735               | 7,386               | 15,883              | 14,084              |
| Litigation accrual reversal                                  |                     | (7,351)             |                     | (7,351)             |
| Preopening expense                                           |                     |                     |                     | 3,898               |
| Depreciation and amortization                                | 19,610              | 20,522              | 39,253              | 40,324              |
| Total operating expenses                                     | 217,892             | 209,010             | 439,633             | 428,926             |
| Operating income                                             | 21,025              | 22,611              | 40,933              | 40,708              |
| Interest expense                                             | (21,114)            | (15,193)            | (42,443)            | (37,847)            |
| Interest income                                              | 92                  | 84                  | 179                 | 174                 |
| Derivative income                                            |                     | 168                 |                     | 398                 |
| Income (loss) from continuing operations before income taxes | 3                   | 7,670               | (1,331)             | 3,433               |
| Income tax provision                                         | (1,024)             | (1,359)             | (2,007)             | (2,770)             |
| Income (loss) from continuing operations                     | (1,021)             | 6,311               | (3,338)             | 663                 |
| Income from discontinued operations, net of income taxes     |                     | 1,726               |                     | 2,512               |
| Net income (loss)                                            | \$ (1,021)          | \$ 8,037            | \$ (3,338)          | \$ 3,175            |
| Income (loss) per common share-basic:                        |                     |                     |                     |                     |
| Income (loss) from continuing operations                     | \$ (0.03)           | \$ 0.16             | \$ (0.08)           | \$ 0.02             |
| Income from discontinued operations, net of income taxes     |                     | 0.04                |                     | 0.06                |
| Net income (loss)                                            | \$ (0.03)           | \$ 0.20             | \$ (0.08)           | \$ 0.08             |
| Income (loss) per common share-diluted:                      |                     |                     |                     |                     |
| Income (loss) from continuing operations                     | \$ (0.03)           | \$ 0.16             | \$ (0.08)           | \$ 0.02             |
| Income from discontinued operations, net of income taxes     |                     | 0.04                |                     | 0.06                |
| Net income (loss)                                            | \$ (0.03)           | \$ 0.20             | \$ (0.08)           | \$ 0.08             |
| Weighted average basic shares                                | 39,932,856          | 39,686,217          | 39,880,379          | 39,634,573          |

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|                                 |            |            |            |            |
|---------------------------------|------------|------------|------------|------------|
| Weighted average diluted shares | 39,932,856 | 39,731,192 | 39,880,379 | 39,682,644 |
|---------------------------------|------------|------------|------------|------------|

See notes to the consolidated financial statements.

**ISLE OF CAPRI CASINOS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands, except share amounts)**

*(Unaudited)*

|                                                                                                                                                  | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                                                                                                                                  | <b>October 26,<br/>2014</b> | <b>October 27,<br/>2013</b> | <b>October 26,<br/>2014</b> | <b>October 27,<br/>2013</b> |
| Net income (loss)                                                                                                                                | \$ (1,021)                  | \$ 8,037                    | \$ (3,338)                  | \$ 3,175                    |
| Other comprehensive income, net of tax:                                                                                                          |                             |                             |                             |                             |
| Deferred hedge adjustment, net of income tax provision<br>of \$59 and \$149 for the three and six months ended<br>October 27, 2013, respectively |                             | 99                          |                             | 247                         |
| Comprehensive income (loss)                                                                                                                      | \$ (1,021)                  | \$ 8,136                    | \$ (3,338)                  | \$ 3,422                    |

See notes to the consolidated financial statements.

**ISLE OF CAPRI CASINOS, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**(In thousands, except share amounts)**

*(Unaudited)*

|                                                                         | <b>Shares of<br/>Common<br/>Stock</b> |    | <b>Common<br/>Stock</b> |    | <b>Additional<br/>Paid-in<br/>Capital</b> |    | <b>Retained<br/>Earnings<br/>(Deficit)</b> |    | <b>Treasury<br/>Stock</b> |    | <b>Total<br/>Stockholders<br/>Equity</b> |
|-------------------------------------------------------------------------|---------------------------------------|----|-------------------------|----|-------------------------------------------|----|--------------------------------------------|----|---------------------------|----|------------------------------------------|
| Balance, April 27, 2014                                                 | 42,066,148                            | \$ | 421                     | \$ | 247,819                                   | \$ | (201,913)                                  | \$ | (26,943)                  | \$ | 19,384                                   |
| Net loss                                                                |                                       |    |                         |    |                                           |    | (3,338)                                    |    |                           |    | (3,338)                                  |
| Issuance of restricted stock from<br>treasury stock, net of forfeitures |                                       |    |                         |    | (2,446)                                   |    |                                            |    | 2,446                     |    |                                          |
| Stock compensation expense                                              |                                       |    |                         |    | 2,077                                     |    |                                            |    |                           |    | 2,077                                    |
| Balance, October 26, 2014                                               | 42,066,148                            | \$ | 421                     | \$ | 247,450                                   | \$ | (205,251)                                  | \$ | (24,497)                  | \$ | 18,123                                   |

See notes to the consolidated financial statements.

## ISLE OF CAPRI CASINOS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                 | Six Months Ended    |                     |
|---------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                 | October 26,<br>2014 | October 27,<br>2013 |
| <b>Operating activities:</b>                                                    |                     |                     |
| Net income (loss)                                                               | \$ (3,338)          | \$ 3,175            |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization                                                   | 39,253              | 41,497              |
| Amortization and write-off of deferred financing costs                          | 2,239               | 2,224               |
| Amortization of debt discount                                                   | 128                 | 120                 |
| Deferred income taxes                                                           | 1,965               | 2,190               |
| Stock compensation expense                                                      | 2,077               | 2,637               |
| Litigation accrual reversal                                                     |                     | (14,730)            |
| Gain on derivative instruments                                                  |                     | (398)               |
| Loss (gain) on disposal of assets                                               | 35                  | (1,002)             |
| Changes in operating assets and liabilities:                                    |                     |                     |
| Marketable securities                                                           | 237                 | 400                 |
| Accounts receivable                                                             | 1,335               | 1,209               |
| Income tax receivable                                                           | (130)               | 446                 |
| Prepaid expenses and other assets                                               | (3,205)             | (2,429)             |
| Accounts payable and accrued liabilities                                        | 8,317               | (3,000)             |
| Net cash provided by operating activities                                       | 48,913              | 32,339              |
| <b>Investing activities:</b>                                                    |                     |                     |
| Purchase of property and equipment                                              | (18,658)            | (30,724)            |
| Proceeds from sale of property and equipment                                    | 35                  | 1,154               |
| Payments towards gaming license                                                 |                     | (7,500)             |
| Restricted cash and investments                                                 | 688                 | 1,198               |
| Net cash used in investing activities                                           | (17,935)            | (35,872)            |
| <b>Financing activities:</b>                                                    |                     |                     |
| Principal payments on debt                                                      | (114)               | (305)               |
| Net (repayments) borrowings on line of credit                                   | (31,900)            | 6,000               |
| Payment of deferred financing costs                                             |                     | (673)               |
| Net cash (used in) provided by financing activities                             | (32,014)            | 5,022               |
| Net decrease in cash and cash equivalents                                       | (1,036)             | 1,489               |
| Cash and cash equivalents, beginning of period                                  | 69,830              | 68,469              |
| Cash and cash equivalents, end of the period                                    | \$ 68,794           | \$ 69,958           |

See notes to the consolidated financial statements.

**ISLE OF CAPRI CASINOS, INC.**

**Notes to Consolidated Financial Statements**

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

*(Unaudited)*

**1. Nature of Operations**

Isle of Capri Casinos, Inc., a Delaware corporation, was incorporated in February 1990. Except where otherwise noted, the words "we," "us," "our" and similar terms, as well as "Company," refer to Isle of Capri Casinos, Inc. and all of its subsidiaries. We are a developer, owner and operator of branded gaming facilities and related lodging and entertainment facilities in markets throughout the United States. Our wholly owned subsidiaries own or operate fifteen casino gaming facilities in the United States located in Black Hawk, Colorado; Pompano Beach, Florida; Bettendorf, Marquette and Waterloo, Iowa; Lake Charles, Louisiana; Lula, Natchez and Vicksburg, Mississippi; Boonville, Cape Girardeau, Caruthersville and Kansas City, Missouri; and Nemacolin, Pennsylvania.

**2. Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ( "SEC" ) and in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. In management's opinion, the accompanying interim condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results presented. The accompanying interim condensed consolidated financial statements have been prepared without audit. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended April 27, 2014 as filed with the SEC and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report, which are available on the SEC's website at [www.sec.gov](http://www.sec.gov) or our website at [www.islecorp.com](http://www.islecorp.com).

Our fiscal year ends on the last Sunday in April. Periodically, this system necessitates a 53-week year. Fiscal 2015 and 2014 are both 52-week years, which commenced on April 28, 2014 and April 29, 2013, respectively.

The condensed consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation. We view each property as an operating segment and all such operating segments have been aggregated into one reporting segment.

Discontinued operations include our former Davenport, Iowa casino operations sold in February 2014. The results of our discontinued operations are summarized as follows:

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|                                                   | Three Months Ended<br>October 27,<br>2013 |       | Six Months Ended<br>October 27,<br>2013 |        |
|---------------------------------------------------|-------------------------------------------|-------|-----------------------------------------|--------|
| Net revenues                                      | \$                                        | 9,959 | \$                                      | 19,675 |
| Pretax income from discontinued operations        |                                           | 1,726 |                                         | 2,512  |
| Income tax provision from discontinued operations |                                           |       |                                         |        |
| Income from discontinued operations               |                                           | 1,726 |                                         | 2,512  |

### 3. Long-Term Debt

Long-term debt consists of the following:

|                                                                                                                                  | October 26,<br>2014 | April 27,<br>2014 |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------|
| <b>Senior Secured Credit Facility:</b>                                                                                           |                     |                   |
| Revolving line of credit, expires April 19, 2018, interest payable at least quarterly at either LIBOR and/or prime plus a margin | \$ 32,800           | \$ 64,700         |
| 5.875% Senior Notes, interest payable semi-annually March 15 and September 15                                                    | 350,000             | 350,000           |
| 7.75% Senior Notes, interest payable semi-annually March 15 and September 15, net of discount                                    | 298,616             | 298,488           |
| 8.875% Senior Subordinated Notes, interest payable Semi-annually June 15 and December 15                                         | 350,000             | 350,000           |
| Other                                                                                                                            | 2,999               | 3,113             |
|                                                                                                                                  | 1,034,415           | 1,066,301         |
| Less current maturities                                                                                                          | 233                 | 230               |
| Long-term debt                                                                                                                   | \$ 1,034,182        | \$ 1,066,071      |

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

Our net revolving line of credit availability at October 26, 2014, as limited by our maximum consolidated total leverage ratio, was approximately \$178,000, after consideration of approximately \$32,000 in outstanding letters of credit. We have an annual commitment fee related to the unused portion of the Credit Facility of up to 0.55% which is included in interest expense in the accompanying consolidated statements of operations. The weighted average effective interest rates of the Credit Facility for the six months ended October 26, 2014 was 3.54%.

The Credit Facility includes a number of affirmative and negative covenants. Additionally, we must comply with certain financial covenants including maintenance of a total leverage ratio, senior secured leverage ratio and minimum interest coverage ratio. The Credit Facility also restricts our ability to make certain investments or distributions. We were in compliance with the covenants as of October 26, 2014.

Subsequent to quarter end, on October 29, 2014, we amended our Credit Facility to revise the definition of consolidated EBITDA to exclude the costs associated with the Colorado Referendum and certain severance expenses related to the corporate restructuring. The amendment will be effective beginning in the third quarter fiscal 2015.

*5.875% Senior Notes* In March 2013, we issued \$350,000 of 5.875% Senior Notes due 2021 ( 5.875% Senior Notes ). The net proceeds from the issuance were used to repay term loans under our Credit Facility. The 5.875% Senior Notes are general unsecured obligations and rank junior to all of our senior secured indebtedness and senior to our senior subordinated indebtedness. The 5.875% Senior Notes are redeemable, in whole or in part, at our option at any time on or after March 15, 2016, with call premiums as defined in the indenture governing the 5.875% Senior Notes.

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*7.75% Senior Notes* In March 2011, we issued \$300,000 of 7.75% Senior Notes due 2019 at a price of 99.264% ( *7.75% Senior Notes* ). The 7.75% Senior Notes are general unsecured obligations and rank junior to all of our senior secured indebtedness and senior to our senior subordinated indebtedness. The 7.75% Senior Notes are redeemable, in whole or in part, at our option at any time on or after March 15, 2015, with call premiums as defined in the indenture governing the 7.75% Senior Notes.

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**8.875% Senior Subordinated Notes** In August 2012, we issued \$350,000 of 8.875% Senior Subordinated Notes due 2020 ( 8.875% Senior Subordinated Notes ). The 8.875% Senior Subordinated Notes are general unsecured obligations and rank junior to all of our senior indebtedness. The 8.875% Senior Subordinated Notes are redeemable, in whole or in part, at our option at any time on or after June 15, 2016, with call premiums as defined in the indenture governing the 8.875% Senior Subordinated Notes.

The 5.875% Senior Notes, 7.75% Senior Notes and 8.875% Senior Subordinated Notes are guaranteed, on a joint and several basis, by substantially all of our significant subsidiaries and certain other subsidiaries as described in Note 9. All of the guarantor subsidiaries are wholly owned by us.

The indentures governing the 5.875% Senior Notes, 7.75% Senior Notes and 8.875% Senior Subordinated Notes limit, among other things, our ability and our restricted subsidiaries' ability to borrow money, make restricted payments, use assets as security in other transactions, enter into transactions with affiliates, pay dividends, or repurchase stock. The indentures also limit our ability to issue and sell capital stock of subsidiaries, sell assets in excess of specified amounts or merge with or into other companies.

### 4. Earnings Per Share

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

|                                                                                                              | Three Months Ended  |                     | Six Months Ended    |                     |
|--------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                                              | October 26,<br>2014 | October 27,<br>2013 | October 26,<br>2014 | October 27,<br>2013 |
| <b>Numerator:</b>                                                                                            |                     |                     |                     |                     |
| Income (loss) applicable to common shares:                                                                   |                     |                     |                     |                     |
| Income (loss) from continuing operations                                                                     | \$ (1,021)          | \$ 6,311            | \$ (3,338)          | \$ 663              |
| Income from discontinued operations                                                                          |                     | 1,726               |                     | 2,512               |
| Net income (loss)                                                                                            | \$ (1,021)          | \$ 8,037            | \$ (3,338)          | \$ 3,175            |
| <b>Denominator:</b>                                                                                          |                     |                     |                     |                     |
| Denominator for basic earnings (loss) per share - weighted average shares                                    |                     |                     |                     |                     |
|                                                                                                              | 39,932,856          | 39,686,217          | 39,880,379          | 39,634,573          |
| Effect of dilutive securities                                                                                |                     |                     |                     |                     |
| Employee stock options                                                                                       |                     | 44,975              |                     | 48,071              |
| Denominator for diluted earnings (loss) per share - adjusted weighted average shares and assumed conversions | 39,932,856          | 39,731,192          | 39,880,379          | 39,682,644          |
| <b>Basic earnings (loss) per share:</b>                                                                      |                     |                     |                     |                     |
| Income (loss) from continuing operations                                                                     | \$ (0.03)           | \$ 0.16             | \$ (0.08)           | \$ 0.02             |
| Income from discontinued operations                                                                          |                     | 0.04                |                     | 0.06                |
| Net income (loss)                                                                                            | \$ (0.03)           | \$ 0.20             | \$ (0.08)           | \$ 0.08             |
| <b>Diluted earnings (loss) per share:</b>                                                                    |                     |                     |                     |                     |
| Income (loss) from continuing operations                                                                     | \$ (0.03)           | \$ 0.16             | \$ (0.08)           | \$ 0.02             |
| Income from discontinued operations                                                                          |                     | 0.04                |                     | 0.06                |
| Net income (loss)                                                                                            | \$ (0.03)           | \$ 0.20             | \$ (0.08)           | \$ 0.08             |

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Our basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Due to the loss from continuing operations for the three and six months ended October 26, 2014, stock options representing 43,945 and 44,180 shares, which are potentially dilutive, and 205,060 shares, which are anti-dilutive, were excluded from the calculation of common shares for diluted loss per share for the respective periods. Stock options representing 753,860 shares, which were anti-dilutive, were excluded from the calculation of common shares for diluted earnings per share for the three and six months ended

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October 27, 2013. As the minimum market performance conditions related to our restricted stock units have not been achieved as of October 26, 2014 or October 27, 2013, 1,656,943 and 1,714,286 units have been excluded from the calculation of diluted earnings per share for the respective periods.

### 5. Stock Based Compensation

Under our 2009 Long Term Incentive Plan we have issued restricted stock units, restricted stock and stock options.

*Restricted Stock Units* During fiscal 2013, we granted restricted stock units ( RSUs ) containing market performance conditions which will determine the ultimate amount of RSUs, if any, to be awarded up to 1,656,943 shares. Any RSUs earned will vest 50% on April 26, 2015 and 50% on April 26, 2016. The fair value of these RSUs was determined utilizing a lattice pricing model which considered a range of assumptions including volatility and risk-free interest rates. The aggregate compensation cost related to these RSUs is \$4,695 to be recognized over the vesting periods. As of October 26, 2014, our unrecognized compensation cost for these RSUs was \$1,265.

*Restricted Stock* During the six months ended October 26, 2014, we issued 107,214 shares of restricted stock with a weighted average grant date fair value of \$7.92 to employees and 122,325 shares of restricted stock with a weighted-average grant date fair value of \$7.24 to directors. Restricted stock awards are made to employees and directors under annual long-term incentive grants which primarily vest one-third on each anniversary of the grant date for employees and vests one-half on the grant date and one-half on the first anniversary of the grant date for directors. Our aggregate estimate of forfeitures for restricted stock for employees and directors is 12% and 0%, respectively. As of October 26, 2014, our unrecognized compensation cost for unvested restricted stock was \$1,430 with a remaining weighted average vesting period of 1.15 years.

### 6. Fair Value

*Items Measured at Fair Value on a Recurring Basis* The following table sets forth the assets measured at fair value on a recurring basis, by input level, in the consolidated balance sheets at October 26, 2014 and April 27, 2014:

|                                 | Level 1  | October 26, 2014<br>Level 2 | Total     |
|---------------------------------|----------|-----------------------------|-----------|
| Assets:                         |          |                             |           |
| Marketable securities           | \$ 7,910 | \$ 19,142                   | \$ 27,052 |
| Restricted cash and investments | 4,665    | 4,484                       | 9,149     |

|                                 | Level 1   | April 27, 2014<br>Level 2 | Total     |
|---------------------------------|-----------|---------------------------|-----------|
| Assets:                         |           |                           |           |
| Marketable securities           | \$ 10,074 | \$ 17,215                 | \$ 27,289 |
| Restricted cash and investments | 4,459     | 5,348                     | 9,807     |

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*Marketable securities* The estimated fair values of our marketable securities are determined on an individual asset basis based upon quoted prices of identical assets available in active markets (Level 1), quoted prices of identical assets in inactive markets, or quoted prices for similar assets in active and inactive markets (Level 2), and represent the amounts we would expect to receive if we sold these marketable securities.

*Restricted cash and investments* The estimated fair values of our restricted cash and investments are based upon quoted prices available in active markets (Level 1), or quoted prices for similar assets in active and inactive markets (Level 2), and represent the amounts we would expect to receive if we sold our restricted cash and investments.

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

|                                  | October 27, 2014 |            | April 27, 2014  |            |
|----------------------------------|------------------|------------|-----------------|------------|
|                                  | Carrying Amount  | Fair Value | Carrying Amount | Fair Value |
| <b>Financial liabilities:</b>    |                  |            |                 |            |
| Revolving line of credit         | \$ 32,800        | \$ 31,816  | \$ 64,700       | \$ 63,083  |
| 5.875% Senior notes              | 350,000          | 357,000    | 350,000         | 351,750    |
| 7.75% Senior notes               | 298,616          | 313,547    | 298,488         | 318,576    |
| 8.875% Senior subordinated notes | 350,000          | 373,625    | 350,000         | 373,520    |
| Other long-term debt             | 2,999            | 2,999      | 3,113           | 3,113      |
| Other long-term liabilities      | 22,357           | 22,357     | 22,391          | 22,391     |

The fair value of our long-term debt or other long-term obligations is estimated based on the quoted market price of the underlying debt issue (Level 1) or, when a quoted market price is not available, the discounted cash flow of future payments utilizing current rates available to us for debt of similar remaining maturities (Level 3). Debt obligations with a short remaining maturity have a carrying amount that approximates fair value.

## 7. Income Taxes

A summary of our effective income tax provision from continuing operations is as follows:

|                                                 | Three Months Ended |                  | Six Months Ended |                  |
|-------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                 | October 26, 2014   | October 27, 2013 | October 26, 2014 | October 27, 2013 |
| Federal taxes at the statutory rate             | \$ 1               | \$ 3,289         | \$ (466)         | \$ 2,081         |
| State taxes                                     | (179)              | 233              | (519)            | 516              |
| Permanent differences                           | 1,464              | 277              | 2,004            | 536              |
| Tax credits                                     | (559)              | (263)            | (672)            | (525)            |
| Other                                           | 40                 | 49               | 40               | 101              |
| Valuation allowance                             | 257                | (2,226)          | 1,620            | 61               |
| Income tax provision from continuing operations | \$ 1,024           | \$ 1,359         | \$ 2,007         | \$ 2,770         |

Our income tax provision consists of changes in the deferred tax liability attributable to indefinite lived intangibles and expense in state jurisdictions without net operating loss carryforwards available.

As of October 26, 2014, we have a full valuation allowance on our federal and state deferred tax assets and have concluded that the valuation allowance was still needed due to our history of cumulative losses. During fiscal 2014, our Florida operations experienced their second consecutive year of substantive pretax income. We continue to evaluate our cumulative income position and income trend, as well as our future projections of sustained profitability for our Florida operations. We will continue to evaluate whether this profitability trend constitutes sufficient positive evidence to support a full, or partial, reversal of our Florida state valuation allowance of approximately \$3,000.



## 8. Supplemental Disclosures

*Cash Flow* For the six months ended October 26, 2014 and October 27, 2013, we made net cash interest payments of \$40,466 and \$43,652, respectively. Additionally, we made net income tax payments of \$171 and received net income tax refunds of \$97 during the six months ended October 26, 2014 and October 27, 2013, respectively.

For the six months ended October 26, 2014 and October 27, 2013, the accrued purchases of property and equipment in accounts payable increased by \$573 and decreased by \$6,188, respectively.

## 9. Consolidating Condensed Financial Information

Certain of our wholly owned subsidiaries have fully and unconditionally guaranteed on a joint and several basis, the payment of all obligations under our 5.875% Senior Notes, 7.75% Senior Notes and 8.875% Senior Subordinated Notes.

The following wholly owned subsidiaries of the Company are guarantors, on a joint and several basis, under the 5.875% Senior Notes, 7.75% Senior Notes and 8.875% Senior Subordinated Notes: Black Hawk Holdings, L.L.C.; CCSC/Blackhawk, Inc.; IC Holdings Colorado, Inc.; IOC-Black Hawk Distribution Company, L.L.C.; IOC-Boonville, Inc.; IOC-Caruthersville, L.L.C.; IOC-Kansas City, Inc.; IOC-Lula, Inc.; IOC-Natchez, Inc.; IOC-Black Hawk County, Inc.; IOC Holdings, L.L.C.; IOC-Vicksburg, Inc.; IOC-Vicksburg, LLC; Rainbow Casino-Vicksburg Partnership, L.P.; IOC Cape Girardeau, LLC; Isle of Capri Bettendorf, L.C; Isle of Capri Black Hawk, L.L.C.; Isle of Capri Marquette, Inc.; PPI, Inc.; and St. Charles Gaming Company, L.L.C. Each of the subsidiaries guarantees is joint and several with the guarantees of the other subsidiaries.

During the three months ended October 26, 2014, our wholly owned subsidiary, IOC-Davenport, Inc, changed designations from a Guarantor Subsidiary to a Non-Guarantor Subsidiary. All periods presented below reflect the operations of IOC-Davenport, Inc. as a Non-Guarantor Subsidiary.

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Consolidating condensed balance sheets as of October 26, 2014 and April 27, 2014 are as follows:

| As of October 26, 2014                     |                                                       |                           |                                   |                                                |                                                |
|--------------------------------------------|-------------------------------------------------------|---------------------------|-----------------------------------|------------------------------------------------|------------------------------------------------|
|                                            | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Balance Sheet</b>                       |                                                       |                           |                                   |                                                |                                                |
| Current assets                             | \$ 25,549                                             | \$ 76,811                 | \$ 35,459                         | \$ (4,813)                                     | \$ 133,006                                     |
| Intercompany receivables                   | 476,708                                               |                           | 316                               | (477,024)                                      |                                                |
| Investments in subsidiaries                | 551,876                                               | 3,358                     |                                   | (555,234)                                      |                                                |
| Property and equipment, net                | 7,421                                                 | 889,188                   | 39,321                            |                                                | 935,930                                        |
| Other assets                               | 31,831                                                | 150,571                   | 20,210                            | (3,976)                                        | 198,636                                        |
| Total assets                               | \$ 1,093,385                                          | \$ 1,119,928              | \$ 95,306                         | \$ (1,041,047)                                 | \$ 1,267,572                                   |
| Current liabilities                        | \$ 34,197                                             | \$ 75,958                 | \$ 31,520                         | \$ (4,813)                                     | \$ 136,862                                     |
| Intercompany payables                      |                                                       | 452,024                   | 25,000                            | (477,024)                                      |                                                |
| Long-term debt, less current maturities    | 1,034,105                                             |                           | 77                                |                                                | 1,034,182                                      |
| Other accrued liabilities                  | 6,960                                                 | 68,133                    | 7,288                             | (3,976)                                        | 78,405                                         |
| Stockholders' equity                       | 18,123                                                | 523,813                   | 31,421                            | (555,234)                                      | 18,123                                         |
| Total liabilities and stockholders' equity | \$ 1,093,385                                          | \$ 1,119,928              | \$ 95,306                         | \$ (1,041,047)                                 | \$ 1,267,572                                   |
|                                            |                                                       |                           |                                   |                                                |                                                |
| As of April 27, 2014                       |                                                       |                           |                                   |                                                |                                                |
|                                            | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
| <b>Balance Sheet</b>                       |                                                       |                           |                                   |                                                |                                                |
| Current assets                             | \$ 16,131                                             | \$ 80,918                 | \$ 35,589                         | \$ (199)                                       | \$ 132,439                                     |
| Intercompany receivables                   | 530,886                                               |                           |                                   | (530,886)                                      |                                                |
| Investments in subsidiaries                | 535,662                                               | 3,358                     |                                   | (539,020)                                      |                                                |
| Property and equipment, net                | 6,693                                                 | 907,175                   | 41,736                            |                                                | 955,604                                        |
| Other assets                               | 35,837                                                | 151,044                   | 20,236                            | (5,086)                                        | 202,031                                        |
| Total assets                               | \$ 1,125,209                                          | \$ 1,142,495              | \$ 97,561                         | \$ (1,075,191)                                 | \$ 1,290,074                                   |
| Current liabilities                        | \$ 33,447                                             | \$ 67,899                 | \$ 26,716                         | \$ (199)                                       | \$ 127,863                                     |
| Intercompany payables                      |                                                       | 495,416                   | 35,470                            | (530,886)                                      |                                                |
| Long-term debt, less current maturities    | 1,065,913                                             |                           | 158                               |                                                | 1,066,071                                      |
| Other accrued liabilities                  | 6,465                                                 | 68,002                    | 7,375                             | (5,086)                                        | 76,756                                         |
| Stockholders' equity                       | 19,384                                                | 511,178                   | 27,842                            | (539,020)                                      | 19,384                                         |
| Total liabilities and stockholders' equity | \$ 1,125,209                                          | \$ 1,142,495              | \$ 97,561                         | \$ (1,075,191)                                 | \$ 1,290,074                                   |

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Consolidating condensed statements of operations for the three and six months ended October 26, 2014 and October 27, 2013 are as follows:

| Statement of Operations                                      | For the Three Months Ended October 26, 2014  |                        |                            |                                       |    | Isle of Capri Casinos, Inc. Consolidated |
|--------------------------------------------------------------|----------------------------------------------|------------------------|----------------------------|---------------------------------------|----|------------------------------------------|
|                                                              | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries |    |                                          |
| <b>Revenues:</b>                                             |                                              |                        |                            |                                       |    |                                          |
| Casino                                                       | \$                                           | \$ 244,105             | \$ 11,340                  | \$                                    | \$ | 255,445                                  |
| Rooms, food, beverage, pari-mutuel and other                 | 1                                            | 41,755                 | 3,380                      | (2,227)                               |    | 42,909                                   |
| Management fee revenue                                       | 8,334                                        |                        |                            | (8,334)                               |    |                                          |
| Gross revenues                                               | 8,335                                        | 285,860                | 14,720                     | (10,561)                              |    | 298,354                                  |
| Less promotional allowances                                  |                                              | (55,983)               | (3,454)                    |                                       |    | (59,437)                                 |
| Net revenues                                                 | 8,335                                        | 229,877                | 11,266                     | (10,561)                              |    | 238,917                                  |
| <b>Operating expenses:</b>                                   |                                              |                        |                            |                                       |    |                                          |
| Casino                                                       |                                              | 38,598                 | 1,677                      |                                       |    | 40,275                                   |
| Gaming taxes                                                 |                                              | 60,249                 | 4,154                      |                                       |    | 64,403                                   |
| Rooms, food, beverage, pari-mutuel and other                 | 8,017                                        | 83,283                 | 4,531                      | (2,227)                               |    | 93,604                                   |
| Management fee expense                                       |                                              | 8,034                  | 300                        | (8,334)                               |    |                                          |
| Depreciation and amortization                                | 508                                          | 17,740                 | 1,362                      |                                       |    | 19,610                                   |
| Total operating expenses                                     | 8,525                                        | 207,904                | 12,024                     | (10,561)                              |    | 217,892                                  |
| Operating income (loss)                                      | (190)                                        | 21,973                 | (758)                      |                                       |    | 21,025                                   |
| Interest expense, net                                        | (10,971)                                     | (9,519)                | (532)                      |                                       |    | (21,022)                                 |
| Equity in income (loss) of subsidiaries                      | 5,769                                        |                        |                            | (5,769)                               |    |                                          |
| Income (loss) from continuing operations before income taxes | (5,392)                                      | 12,454                 | (1,290)                    | (5,769)                               |    | 3                                        |
| Income tax benefit (provision)                               | 4,371                                        | (7,068)                | 1,673                      |                                       |    | (1,024)                                  |
| Income (loss) from continuing operations                     | (1,021)                                      | 5,386                  | 383                        | (5,769)                               |    | (1,021)                                  |
| Income (loss) of discontinued operations                     |                                              |                        |                            |                                       |    |                                          |
| Net income (loss)                                            | \$ (1,021)                                   | \$ 5,386               | \$ 383                     | \$ (5,769)                            | \$ | (1,021)                                  |

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|                                                              | For the Three Months Ended October 27, 2013           |                           |                                   |                                                |                                                |          |
|--------------------------------------------------------------|-------------------------------------------------------|---------------------------|-----------------------------------|------------------------------------------------|------------------------------------------------|----------|
|                                                              | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |          |
| Statement of Operations                                      |                                                       |                           |                                   |                                                |                                                |          |
| Revenues:                                                    |                                                       |                           |                                   |                                                |                                                |          |
| Casino                                                       | \$                                                    | \$ 238,051                | \$ 8,457                          | \$                                             | \$                                             | 246,508  |
| Rooms, food, beverage, pari-mutuel and other                 | 176                                                   | 40,236                    | 3,217                             | (2,319)                                        |                                                | 41,310   |
| Management fee revenue                                       | 7,816                                                 |                           |                                   | (7,816)                                        |                                                |          |
| Gross revenues                                               | 7,992                                                 | 278,287                   | 11,674                            | (10,135)                                       |                                                | 287,818  |
| Less promotional allowances                                  |                                                       | (54,276)                  | (1,921)                           |                                                |                                                | (56,197) |
| Net revenues                                                 | 7,992                                                 | 224,011                   | 9,753                             | (10,135)                                       |                                                | 231,621  |
| Operating expenses:                                          |                                                       |                           |                                   |                                                |                                                |          |
| Casino                                                       |                                                       | 37,938                    | 1,855                             |                                                |                                                | 39,793   |
| Gaming taxes                                                 |                                                       | 59,183                    | 3,268                             |                                                |                                                | 62,451   |
| Rooms, food, beverage, pari-mutuel and other                 | 8,628                                                 | 82,560                    | 4,726                             | (2,319)                                        |                                                | 93,595   |
| Litigation accrual reversal                                  |                                                       |                           | (7,351)                           |                                                |                                                | (7,351)  |
| Management fee expense                                       |                                                       | 7,608                     | 208                               | (7,816)                                        |                                                |          |
| Depreciation and amortization                                | 380                                                   | 18,472                    | 1,670                             |                                                |                                                | 20,522   |
| Total operating expenses                                     | 9,008                                                 | 205,761                   | 4,376                             | (10,135)                                       |                                                | 209,010  |
| Operating income (loss)                                      | (1,016)                                               | 18,250                    | 5,377                             |                                                |                                                | 22,611   |
| Interest (expense) income, net                               | (11,546)                                              | (9,697)                   | 6,134                             |                                                |                                                | (15,109) |
| Derivative income                                            | 168                                                   |                           |                                   |                                                |                                                | 168      |
| Equity in income (loss) of subsidiaries                      | 15,422                                                |                           |                                   | (15,422)                                       |                                                |          |
| Income (loss) from continuing operations before income taxes | 3,028                                                 | 8,553                     | 11,511                            | (15,422)                                       |                                                | 7,670    |
| Income tax (provision) benefit                               | 3,283                                                 | (5,107)                   | 465                               |                                                |                                                | (1,359)  |
| Income (loss) from continuing operations                     | 6,311                                                 | 3,446                     | 11,976                            | (15,422)                                       |                                                | 6,311    |
| Income (loss) of discontinued operations                     | 1,726                                                 |                           | 1,310                             | (1,310)                                        |                                                | 1,726    |
| Net income (loss)                                            | \$ 8,037                                              | \$ 3,446                  | \$ 13,286                         | \$ (16,732)                                    | \$                                             | 8,037    |

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|                                                              | For the Six Months Ended October 26, 2014             |                           |                                   |                                                |                                                |            |
|--------------------------------------------------------------|-------------------------------------------------------|---------------------------|-----------------------------------|------------------------------------------------|------------------------------------------------|------------|
|                                                              | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |            |
| <b>Statement of Operations</b>                               |                                                       |                           |                                   |                                                |                                                |            |
| Revenues:                                                    |                                                       |                           |                                   |                                                |                                                |            |
| Casino                                                       | \$                                                    | \$ 488,978                | \$ 21,539                         | \$                                             |                                                | \$ 510,517 |
| Rooms, food, beverage, pari-mutuel and other                 | 42                                                    | 83,195                    | 6,636                             | (4,529)                                        |                                                | 85,344     |
| Management fee revenue                                       | 16,800                                                |                           |                                   | (16,800)                                       |                                                |            |
| Gross revenues                                               | 16,842                                                | 572,173                   | 28,175                            | (21,329)                                       |                                                | 595,861    |
| Less promotional allowances                                  |                                                       | (109,351)                 | (5,944)                           |                                                |                                                | (115,295)  |
| Net revenues                                                 | 16,842                                                | 462,822                   | 22,231                            | (21,329)                                       |                                                | 480,566    |
| Operating expenses:                                          |                                                       |                           |                                   |                                                |                                                |            |
| Casino                                                       |                                                       | 77,210                    | 3,193                             |                                                |                                                | 80,403     |
| Gaming taxes                                                 |                                                       | 120,783                   | 8,087                             |                                                |                                                | 128,870    |
| Rooms, food, beverage, pari-mutuel and other                 | 17,426                                                | 168,014                   | 10,196                            | (4,529)                                        |                                                | 191,107    |
| Management fee expense                                       |                                                       | 16,200                    | 600                               | (16,800)                                       |                                                |            |
| Depreciation and amortization                                | 976                                                   | 35,556                    | 2,721                             |                                                |                                                | 39,253     |
| Total operating expenses                                     | 18,402                                                | 417,763                   | 24,797                            | (21,329)                                       |                                                | 439,633    |
| Operating income (loss)                                      | (1,560)                                               | 45,059                    | (2,566)                           |                                                |                                                | 40,933     |
| Interest expense, net                                        | (22,154)                                              | (19,040)                  | (1,070)                           |                                                |                                                | (42,264)   |
| Equity in income (loss) of subsidiaries                      | 11,578                                                |                           |                                   | (11,578)                                       |                                                |            |
| Income (loss) from continuing operations before income taxes | (12,136)                                              | 26,019                    | (3,636)                           | (11,578)                                       |                                                | (1,331)    |
| Income tax benefit (provision)                               | 8,798                                                 | (13,501)                  | 2,696                             |                                                |                                                | (2,007)    |
| Income (loss) from continuing operations                     | (3,338)                                               | 12,518                    | (940)                             | (11,578)                                       |                                                | (3,338)    |
| Income (loss) of discontinued operations                     |                                                       |                           |                                   |                                                |                                                |            |
| Net income (loss)                                            | \$ (3,338)                                            | \$ 12,518                 | \$ (940)                          | \$ (11,578)                                    | \$                                             | (3,338)    |

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For the Six Months Ended October 27, 2013

| Statement of Operations                                         | Isle of Capri<br>Casinos, Inc.<br>(Parent<br>Obligor) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Isle of Capri<br>Casinos, Inc.<br>Consolidated |
|-----------------------------------------------------------------|-------------------------------------------------------|---------------------------|-----------------------------------|------------------------------------------------|------------------------------------------------|
| <b>Revenues:</b>                                                |                                                       |                           |                                   |                                                |                                                |
| Casino                                                          | \$                                                    | \$ 486,418                | \$ 10,924                         | \$                                             | \$ 497,342                                     |
| Rooms, food, beverage, pari-mutuel and other                    | 354                                                   | 82,775                    | 5,885                             | (4,667)                                        | 84,347                                         |
| Management fee revenue                                          | 16,055                                                |                           |                                   | (16,055)                                       |                                                |
| Gross revenues                                                  | 16,409                                                | 569,193                   | 16,809                            | (20,722)                                       | 581,689                                        |
| Less promotional allowances                                     |                                                       | (109,947)                 | (2,108)                           |                                                | (112,055)                                      |
| Net revenues                                                    | 16,409                                                | 459,246                   | 14,701                            | (20,722)                                       | 469,634                                        |
| <b>Operating expenses:</b>                                      |                                                       |                           |                                   |                                                |                                                |
| Casino                                                          |                                                       | 77,540                    | 2,521                             |                                                | 80,061                                         |
| Gaming taxes                                                    |                                                       | 120,644                   | 4,485                             |                                                | 125,129                                        |
| Rooms, food, beverage, pari-mutuel and other                    | 16,762                                                | 167,865                   | 10,803                            | (4,667)                                        | 190,763                                        |
| Litigation accrual reversal                                     |                                                       |                           | (7,351)                           |                                                | (7,351)                                        |
| Management fee expense                                          |                                                       | 15,847                    | 208                               | (16,055)                                       |                                                |
| Depreciation and amortization                                   | 782                                                   | 37,314                    | 2,228                             |                                                | 40,324                                         |
| Total operating expenses                                        | 17,544                                                | 419,210                   | 12,894                            | (20,722)                                       | 428,926                                        |
| Operating income (loss)                                         | (1,135)                                               | 40,036                    | 1,807                             |                                                | 40,708                                         |
| Interest (expense) income, net                                  | (23,308)                                              | (19,428)                  | 5,063                             |                                                | (37,673)                                       |
| Derivative income                                               | 398                                                   |                           |                                   |                                                | 398                                            |
| Equity in income (loss) of subsidiaries                         | 18,210                                                |                           |                                   | (18,210)                                       |                                                |
| Income (loss) from continuing operations<br>before income taxes | (5,835)                                               | 20,608                    | 6,870                             | (18,210)                                       | 3,433                                          |
| Income tax (provision) benefit                                  | 6,498                                                 | (11,341)                  | 2,073                             |                                                | (2,770)                                        |
| Income (loss) from continuing operations                        | 663                                                   | 9,267                     | 8,943                             | (18,210)                                       | 663                                            |
| Income (loss) of discontinued operations                        | 2,512                                                 |                           | 1,777                             | (1,777)                                        | 2,512                                          |
| Net income (loss)                                               | \$ 3,175                                              | \$ 9,267                  | \$ 10,720                         | \$ (19,987)                                    | \$ 3,175                                       |

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Consolidating condensed statements of cash flows for the six months ended October 26, 2014 and October 27, 2013 are as follows:

| Statement of Cash Flows                              | Six Months Ended October 26, 2014            |                        |                            |                                       |                                          |
|------------------------------------------------------|----------------------------------------------|------------------------|----------------------------|---------------------------------------|------------------------------------------|
|                                                      | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| Net cash (used in) provided by operating activities  | \$ (17,140)                                  | \$ 60,199              | \$ 5,854                   | \$                                    | \$ 48,913                                |
| <b>Investing Activities:</b>                         |                                              |                        |                            |                                       |                                          |
| Purchases of property and equipment, net of proceeds | (1,639)                                      | (16,664)               | (320)                      |                                       | (18,623)                                 |
| Restricted cash and investments                      |                                              |                        | 688                        |                                       | 688                                      |
| Parent company investment in subsidiaries            | 49,663                                       |                        |                            | (49,663)                              |                                          |
| Net cash provided by (used in) investing activities  | 48,024                                       | (16,664)               | 368                        | (49,663)                              | (17,935)                                 |
| <b>Financing Activities:</b>                         |                                              |                        |                            |                                       |                                          |
| Principal payments on debt                           | (33)                                         |                        | (81)                       |                                       | (114)                                    |
| Net repayments on line of credit                     | (31,900)                                     |                        |                            |                                       | (31,900)                                 |
| Net proceeds from (payments to) related parties      |                                              | (43,393)               | (6,270)                    | 49,663                                |                                          |
| Net cash (used in) provided by financing activities  | (31,933)                                     | (43,393)               | (6,351)                    | 49,663                                | (32,014)                                 |
| Net (decrease) increase in cash and cash equivalents | (1,049)                                      | 142                    | (129)                      |                                       | (1,036)                                  |
| Cash and cash equivalents at beginning of period     | 6,051                                        | 53,787                 | 9,992                      |                                       | 69,830                                   |
| Cash and cash equivalents at end of the period       | \$ 5,002                                     | \$ 53,929              | \$ 9,863                   |                                       | \$ 68,794                                |

| Statement of Cash Flows                              | Six Months Ended October 27, 2013            |                        |                            |                                       |                                          |
|------------------------------------------------------|----------------------------------------------|------------------------|----------------------------|---------------------------------------|------------------------------------------|
|                                                      | Isle of Capri Casinos, Inc. (Parent Obligor) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Isle of Capri Casinos, Inc. Consolidated |
| Net cash (used in) provided by operating activities  | \$ (20,158)                                  | \$ 50,539              | \$ 1,958                   | \$                                    | \$ 32,339                                |
| <b>Investing Activities:</b>                         |                                              |                        |                            |                                       |                                          |
| Purchases of property and equipment, net of proceeds | (169)                                        | (12,600)               | (16,801)                   |                                       | (29,570)                                 |
| Payments towards gaming license                      |                                              |                        | (7,500)                    |                                       | (7,500)                                  |
| Restricted cash and investments                      |                                              |                        | 1,198                      |                                       | 1,198                                    |
| Parent company investment in subsidiaries            | 13,491                                       |                        |                            | (13,491)                              |                                          |
| Net cash provided by (used in) investing activities  | 13,322                                       | (12,600)               | (23,103)                   | (13,491)                              | (35,872)                                 |
| <b>Financing Activities:</b>                         |                                              |                        |                            |                                       |                                          |
| Principal payments on debt                           | (30)                                         |                        | (275)                      |                                       | (305)                                    |
| Net borrowings on line of credit                     | 6,000                                        |                        |                            |                                       | 6,000                                    |
| Payments of deferred financing costs                 | (673)                                        |                        |                            |                                       | (673)                                    |
| Net proceeds from (payments to) related parties      |                                              | (41,056)               | 27,565                     | 13,491                                |                                          |
| Net cash provided by (used in) financing activities  | 5,297                                        | (41,056)               | 27,290                     | 13,491                                | 5,022                                    |
| Net (decrease) increase in cash and cash equivalents | (1,539)                                      | (3,117)                | 6,145                      |                                       | 1,489                                    |
| Cash and cash equivalents at beginning of period     | 6,914                                        | 54,612                 | 6,943                      |                                       | 68,469                                   |

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|                                                |    |       |    |        |    |        |    |        |
|------------------------------------------------|----|-------|----|--------|----|--------|----|--------|
| Cash and cash equivalents at end of the period | \$ | 5,375 | \$ | 51,495 | \$ | 13,088 | \$ | 69,958 |
|------------------------------------------------|----|-------|----|--------|----|--------|----|--------|

## 10. Commitments and Contingencies

*Legal and Regulatory Proceedings* In October 2012, we opened our new casino in Cape Girardeau, Missouri. A subcontractor filed a mechanics lien against our property resulting from a dispute between the subcontractor and our general contractor for the construction project. We demanded that the general contractor cause the lien to be bonded against or satisfied, however the general contractor refused to do so and asserted that a portion of the subcontractor's claim resulted from additional work directly requested by us. In October 2013, the subcontractor filed suit against our wholly-owned subsidiary IOC-Cape Girardeau, LLC, the general contractor and two other defendants alleging various contract and equitable claims and is seeking damages of approximately \$4,600. In August 2014, we filed a cross claim against the general contractor alleging breach of contract and various indemnity claims. The outcome of this matter is still in doubt and cannot be predicted with any degree of certainty. In the event that we incur any costs in connection with this matter, we do not believe that any such costs would be material, and if incurred, the settlement of construction costs would be capitalized.

Our wholly owned subsidiary, Lady Luck Gaming Corporation, and several joint venture partners have been defendants in the Greek Civil Courts and the Greek Administrative Courts in similar lawsuits brought by the country of Greece. The actions alleged that the defendants failed to make specified payments in connection with the gaming license bid process for Patras, Greece. In the Civil Court lawsuit, the Civil Court of First Instance ruled in our favor and dismissed the lawsuit in 2001. The lawsuits continued through the appeals process and in October 2013, the Supreme Administrative Court rejected both lawsuits in a final and irrevocable decision which disposed of this matter completely. As a result, during the three months ended October 27, 2013, we reversed a litigation accrual of \$14,730, of which \$7,351 was recorded as a reduction to operating expenses and \$7,379 was recorded as a reduction to interest expense.

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

We are subject to various contingencies and litigation matters and have a number of unresolved claims. Although the ultimate liability of these contingencies, this litigation and these claims cannot be determined at this time, we believe they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

On February 1, 2013, we signed an agreement with Tower Investments, Inc. to manage The Provence, the resort and casino on North Broad Street, Philadelphia, proposed by Tower Entertainment, LLC (the "Tower JV"), if the project was selected by the Pennsylvania Gaming Control Board. The agreement included a commitment for a loan that was secured by a stand by letter of credit of \$25,000, which could only be drawn upon if the Tower JV was awarded the license. On November 18, 2014, the license was awarded to another applicant and we subsequently cancelled the letter of credit.

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

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

*This report contains statements that we believe are, or may be considered to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as may, will, expect, intend, estimate, foresee, project, anticipate, believe, plans, forecasts, continue or could or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct and are not guarantees of future performance. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.*

*For a more complete description of the risks that may affect our business, see our Annual Report on Form 10-K for the year ended April 27, 2014.*

**Executive Overview**

We are a developer, owner and operator of branded gaming facilities and related dining, lodging and entertainment facilities in regional markets in the United States. We have sought and established geographic diversity to limit the risks caused by weather, regional economic difficulties, gaming tax rates and regulations of local gaming authorities. We currently operate casinos in Colorado, Florida, Iowa, Louisiana, Mississippi, Missouri and Pennsylvania.

Our operating results for the periods presented have been affected, both positively and negatively, by current economic conditions and several other factors discussed in detail below. Our historical operating results may not be indicative of our future results of operations because of these factors and the changing competitive landscape in each of our markets, as well as by factors discussed elsewhere herein. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended April 27, 2014 and by giving consideration to the following:

*Items Impacting Income (Loss) from Continuing Operations* Significant items impacting our income (loss) from continuing operations during the periods ended October 26, 2014, and October 27, 2013 are as follows:

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*Colorado Referendum Costs* During the three and six months ended October 26, 2014, the Company incurred costs of \$3.0 million and \$4.1 million, respectively, in support of efforts to defeat the proposed November referendum that would have expanded gaming to racetracks in certain Colorado counties.

*Property Tax Settlement* During the three months ended October 26, 2014, we reduced property tax expense by \$1.2 million as a result of the settlement of our property tax appeal at our Waterloo, Iowa property for calendar years 2011 through 2014.

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*Corporate Restructuring* - During the six months ended October 26, 2014, we eliminated executive positions in the corporate office to maximize efficiency and streamline reporting lines, resulting in severance expense of \$2.3 million.

*Casino Openings* We opened our Lady Luck Casino on the Nemacolin Woodlands Resort in Farmington, Pennsylvania on July 1, 2013.

*Legal Recoveries* During October 2013, we received a favorable appellant ruling in our Greece gaming license legal proceedings. As a result of this favorable ruling, during the three months ended October 27, 2013, we reversed a litigation accrual of \$14.7 million, of which \$7.3 million was recorded as a reduction to operating expenses and \$7.4 million was recorded as a reduction to interest expense.

*Disruption* Our Black Hawk property's attendance was negatively impacted by the severe weather and flooding in Colorado during September 2013. Our Boonville property was affected by power outages and was forced to close three times for a total of approximately 40 hours, of which two periods were over the key holidays of Father's Day weekend and on the 4th of July. These disruptive events had a negative impact on our operating results for the prior year periods.

*Income Tax Provision* Our income tax provision from continuing operations was impacted by changes in the deferred tax liability attributable to indefinite lived intangibles and expense for state jurisdictions where taxable income is generated. Our tax provision was \$1.0 million and \$1.4 million for the three months ended October 26, 2014 and October 27, 2013, respectively, and was \$2.0 million and \$2.8 million for the six months ended October 26, 2014 and October 27, 2013, respectively.

## Results of Operations

Revenues and operating expenses for the three and six months ended October 26, 2014 and October 27, 2013 are as follows:

| (in thousands)                        | Three Months Ended  |                     | Variance | Percentage<br>Variance |
|---------------------------------------|---------------------|---------------------|----------|------------------------|
|                                       | October 28,<br>2014 | October 27,<br>2013 |          |                        |
| Revenues:                             |                     |                     |          |                        |
| Casino                                | \$ 255,445          | \$ 246,508          | \$ 8,937 | 3.6%                   |
| Rooms                                 | 8,474               | 8,713               | (239)    | -2.7%                  |
| Food, beverage, pari-mutuel and other | 34,435              | 32,597              | 1,838    | 5.6%                   |
| Gross revenues                        | 298,354             | 287,818             | 10,536   | 3.7%                   |
| Less promotional allowances           | (59,437)            | (56,197)            | (3,240)  | 5.8%                   |
| Net revenues                          | 238,917             | 231,621             | 7,296    | 3.1%                   |
| Operating expenses:                   |                     |                     |          |                        |
| Casino                                | 40,275              | 39,793              | 482      | 1.2%                   |
| Gaming taxes                          | 64,403              | 62,451              | 1,952    | 3.1%                   |
| Rooms                                 | 1,849               | 1,872               | (23)     | -1.2%                  |
| Food, beverage, pari-mutuel and other | 10,674              | 10,315              | 359      | 3.5%                   |
| Marine and facilities                 | 14,488              | 14,382              | 106      | 0.7%                   |
| Marketing and administrative          | 59,858              | 59,640              | 218      | 0.4%                   |
| Corporate and development             | 6,735               | 7,386               | (651)    | -8.8%                  |
| Litigation accrual reversal           |                     | (7,351)             | 7,351    | N/M                    |
| Depreciation and amortization         | 19,610              | 20,522              | (912)    | -4.4%                  |
| Total operating expenses              | \$ 217,892          | \$ 209,010          | 8,882    | 4.2%                   |

| (in thousands)                        | Six Months Ended    |                     | Variance  | Percentage<br>Variance |
|---------------------------------------|---------------------|---------------------|-----------|------------------------|
|                                       | October 26,<br>2014 | October 27,<br>2013 |           |                        |
| Revenues:                             |                     |                     |           |                        |
| Casino                                | \$ 510,517          | \$ 497,342          | \$ 13,175 | 2.6%                   |
| Rooms                                 | 16,786              | 17,628              | (842)     | -4.8%                  |
| Food, beverage, pari-mutuel and other | 68,558              | 66,719              | 1,839     | 2.8%                   |
| Gross revenues                        | 595,861             | 581,689             | 14,172    | 2.4%                   |
| Less promotional allowances           | (115,295)           | (112,055)           | (3,240)   | 2.9%                   |
| Net revenues                          | 480,566             | 469,634             | 10,932    | 2.3%                   |
| Operating expenses:                   |                     |                     |           |                        |
| Casino                                | 80,403              | 80,061              | 342       | 0.4%                   |
| Gaming taxes                          | 128,870             | 125,129             | 3,741     | 3.0%                   |
| Rooms                                 | 3,752               | 3,773               | (21)      | -0.6%                  |
| Food, beverage, pari-mutuel and other | 22,046              | 21,117              | 929       | 4.4%                   |
| Marine and facilities                 | 29,207              | 29,001              | 206       | 0.7%                   |
| Marketing and administrative          | 120,219             | 118,890             | 1,329     | 1.1%                   |
| Corporate and development             | 15,883              | 14,084              | 1,799     | 12.8%                  |
| Litigation accrual reversal           |                     | (7,351)             | 7,351     | N/M                    |
| Preopening expense                    |                     | 3,898               | (3,898)   | N/M                    |
| Depreciation and amortization         | 39,253              | 40,324              | (1,071)   | -2.7%                  |
| Total operating expenses              | \$ 439,633          | \$ 428,926          | 10,707    | 2.5%                   |

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*Casino* Casino revenues increased \$8.9 million, or 3.6%, for the three months ended October 26, 2014, as compared to the same period in fiscal 2014. Casino revenues increased \$3.4 million at our Black Hawk properties as they were impacted in the prior year by the weather and flooding in Colorado. Nemacolin and Cape Girardeau's casino revenues increased by \$2.9 million and \$1.5 million, respectively, as both properties continue

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to mature. Lula's casino revenues also increased \$1.5 million due to the implementation of more targeted marketing programs.

Casino operating expenses increased \$0.5 million, or 1.2%, for the three months ended October 26, 2014, as compared to the same period in the prior fiscal year reflecting the increased casino revenues offset by savings from cost reduction initiatives.

Casino revenues increased \$13.2 million, or 2.6%, for the six months ended October 26, 2014, as compared to the same period in fiscal 2014. Casino revenues at our Nemaquin property, which opened July 1, 2013, were \$21.5 million and \$10.9 million for the six months ended October 26, 2014 and October 27, 2013, respectively. Excluding casino revenues at our Nemaquin property, casino revenues increased \$2.6 million, or 0.5%.

Casino operating expenses increased \$0.3 million, or 0.4%, for the six months ended October 26, 2014, as compared to the same period in the prior fiscal year. Excluding casino operating expenses of \$3.2 million and \$2.5 million at our Nemaquin property for the six months ended October 26, 2014 and October 27, 2013, respectively, casino expenses decreased \$0.3 million or 0.4% reflecting savings from cost reduction initiatives.

*Gaming Taxes* State and local gaming taxes increased \$2.0 million, or 3.1% for the three months ended October 26, 2014, as compared to the same period in the prior fiscal year, which is commensurate with casino revenues.

State and local gaming taxes increased \$3.7 million, or 3.0%, for the six months ended October 26, 2014, as compared to the same period in the prior fiscal year. Excluding gaming taxes at our Nemaquin property of \$8.1 million and \$4.5 million for the six months ended October 26, 2014 and October 27, 2013, respectively, gaming taxes were flat for the six month period, which is commensurate with casino revenues when excluding Nemaquin revenues.

*Rooms* Rooms revenue decreased \$0.2 million, or 2.7%, and \$0.8 million, or 4.8%, for the three and six months ended October 26, 2014, respectively, as compared to the same period in the prior fiscal year due to lower occupancy rates.

*Promotional Allowances* Promotional allowances increased \$3.2 million, or 5.8%, for the three months ended October 26, 2014. The Nemaquin, Lula and Black Hawk properties' promotional allowances increased \$3.6 million contributing to their increases in casino revenues.

Promotional allowances increased \$3.2 million, or 2.9%, for the six months ended October 26, 2014. Excluding the promotional allowances at our Nemaquin property, promotional allowances decreased \$0.6 million, or 0.5%. The \$2.9 million increase at our Lula and Black Hawk properties were offset by decreases in our overall promotional allowances reflecting changes in our marketing programs.

*Marketing and Administrative* Marketing and administrative expenses increased \$0.2 million, or 0.4%, for the three months ended October 26, 2014 as compared to the same period in the prior fiscal year. Excluding \$3.0 million of costs incurred to defeat the Colorado referendum and the \$1.2 million credit related to the property tax settlement in Waterloo, marketing and administrative expenses decreased \$1.6

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million, or 2.7%, reflecting changes in our marketing programs as well as savings from cost reduction initiatives.

Marketing and administrative expenses increased \$1.3 million, or 1.1%, for the six months ended October 26, 2014 as compared to the same period in the prior fiscal year. Excluding marketing and administrative expenses at our Nemacolin property for both periods, the \$4.1 million of costs incurred to defeat the Colorado referendum and the \$1.2 million credit related to the property tax settlement at Waterloo, marketing and administrative expenses decreased \$3.5 million, or 3.1%, reflecting changes in our marketing programs as well as savings from cost reduction initiatives.

*Corporate and Development* During the three months ended October 26, 2014, our corporate and development expenses were \$6.7 million compared to \$7.4 million for the three months ended October 27, 2013. The decrease reflects lower stock compensation expense of \$0.3 million and savings achieved through cost reduction initiatives.

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During the six months ended October 26, 2014, our corporate and development expenses were \$15.8 million compared to \$14.1 million for the six months ended October 27, 2013. The six months ended October 26, 2014 includes severance of \$2.3 million resulting from the corporate restructuring. The six months ended October 27, 2013 includes a gain of \$1.0 million from the sale of our corporate aircraft. The decrease reflects lower stock compensation expense of \$0.5 million and savings achieved through cost reduction initiatives.

**Depreciation and Amortization** Depreciation and amortization expense for the three and six months ended October 26, 2014 decreased \$0.9 million and \$1.1 million, respectively, primarily due to certain assets becoming fully depreciated.

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

Interest expense, interest income, derivative income and income tax (provision) benefit for the three and six months ended October 26, 2014 and October 27, 2013 are as follows:

| (in thousands)       | Three Months Ended |                  | Variance   | Percentage Variance |
|----------------------|--------------------|------------------|------------|---------------------|
|                      | October 26, 2014   | October 27, 2013 |            |                     |
| Interest expense     | \$ (21,114)        | \$ (15,193)      | \$ (5,921) | 39.0%               |
| Interest income      | 92                 | 84               | 8          | 9.5%                |
| Derivative income    |                    | 168              | (168)      | -100.0%             |
| Income tax provision | (1,024)            | (1,359)          | 335        | -24.7%              |

| (in thousands)       | Six Months Ended |                  | Variance   | Percentage Variance |
|----------------------|------------------|------------------|------------|---------------------|
|                      | October 26, 2014 | October 27, 2013 |            |                     |
| Interest expense     | \$ (42,443)      | \$ (37,847)      | \$ (4,596) | 12.1%               |
| Interest income      | 179              | 174              | 5          | 2.9%                |
| Derivative income    |                  | 398              | (398)      | -100.0%             |
| Income tax provision | (2,007)          | (2,770)          | 763        | -27.5%              |

**Interest Expense** Interest expense increased by \$5.9 million and \$4.6 million for the three and six months ended October 26, 2014, respectively, as compared to the same periods in the prior fiscal year. The three and six months of the prior year includes the reversal of \$7.4 million in interest expense resulting from the favorable Greek litigation ruling. Excluding this reversal, interest expense decreased \$1.5 million and \$2.8 million in the three and six months of the current year on lower credit facility borrowings.

## Liquidity and Capital Resources

*Cash Flows from Operating Activities* - During the six months ended October 26, 2014, we generated \$48.9 million in cash flows from operating activities compared to generating \$32.3 million during the six months ended October 27, 2013. The year over year increase in cash flows from operating activities is primarily the result of working capital changes associated with accounts payable and construction activities in the prior year.

*Cash Flows used in Investing Activities* - During the six months ended October 26, 2014, we used \$17.9 million for investing activities compared to using \$35.9 million during the six months ended October 27, 2013. Significant investing activities for the six months ended October 26, 2014 included capital expenditures of \$18.7 million. Significant investing activities for the six months ended October 27, 2013 included capital expenditures of \$30.7 million, of which \$17.7 million related to Nemacolin, as well as an additional \$7.5 million toward a Nemacolin table gaming license. These outflows were offset by \$1.2 million of cash inflows from the change in restricted cash and investments and \$1.2 million in proceeds from the sale of property and equipment.

*Cash Flows used in Financing Activities* - During the six months ended October 26, 2014, our net cash flows used in financing activities were primarily to repay \$31.9 million of borrowings under our Credit Facility. During the six months ended October 27, 2013, our net cash flows provided from financing activities were primarily from \$6.0 million in borrowings under our Credit Facility.

*Availability of Cash and Additional Capital* - At October 26, 2014, we had cash and cash equivalents of \$68.8 million and marketable securities of \$27.1 million. As of October 26, 2014, we had \$32.8 million in outstanding revolving credit borrowings under our Credit Facility and our net line of credit availability was approximately \$178.0 million, as limited by our maximum consolidated total leverage ratio. On October 29, 2014, we amended our Credit Facility to revise the definition of consolidated EBITDA to exclude the costs associated with the Colorado Referendum and certain severance expenses related to the corporate restructuring. The amendment will be effective beginning in the third quarter fiscal 2015.

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

On February 1, 2013, we signed an agreement with Tower Investments, Inc. to manage The Provence, the resort and casino on North Broad Street, Philadelphia, proposed by Tower Entertainment, LLC (the "Tower JV"), if the project was selected by the Pennsylvania Gaming Control Board. The agreement included a commitment for a loan that was secured by a stand by letter of credit of \$25 million, which could only be drawn upon if the Tower JV was awarded the license. On November 18, 2014, the license was awarded to another applicant and we subsequently cancelled the letter of credit.

Historically, we have made significant investments in property and equipment and expect that our operations will continue to demand ongoing investments to keep our properties competitive. The timing, completion and amount of additional capital projects will be subject to improvement of economic and local market conditions, cash flows from our continuing operations and borrowing availability under our Credit Facility.

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

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

### **Critical Accounting Estimates**

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

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

For a discussion of our significant accounting policies and estimates, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements presented in our 2014 Annual Report on Form 10-K. There were no newly identified significant accounting estimates in the second quarter of fiscal year 2015, nor were there any material changes to the critical accounting policies and estimates set forth in our 2014 Annual Report.

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

Market risk is the risk of loss arising from adverse changes in market rates and prices, including interest rates, commodity prices and equity prices. Our primary exposure to market risk is interest rate risk associated with our Credit Facility.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of October 26, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 26, 2014, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act of 1934 and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal controls over financial reporting during the fiscal quarter ended October 26, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

A reference is made to the information contained in Footnote 10 of our unaudited condensed consolidated financial statements included herein, which is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended April 27, 2014, except for the following:

*We face significant competition from other gaming operations, including Native American gaming facilities, and from legalization or expansion of gaming by states in or near where we own properties, that could have a material adverse effect on our future operations.*

The gaming industry is intensely competitive, and we face a high degree of competition in the markets in which we operate. We have numerous competitors, including land-based casinos, dockside casinos, riverboat casinos, casinos located on racing, pari-mutuel operations or Native American-owned lands and video lottery and poker machines not located in casinos. We also compete with other forms of legalized gaming and entertainment such as online computer gambling, bingo, pull tab games, card parlors, sports books, cruise-to-nowhere operations, pari-mutuel or telephonic betting on horse racing and dog racing, state-sponsored lotteries, jai-alai, and, in the future, may compete with gaming at other venues. In addition, we compete more generally with other forms of entertainment for the discretionary spending of our customers. We also face the risk that existing competitors will expand their operations and the risk that Native American gaming will continue to grow. For example, an existing competitor in Davenport, Iowa, has announced plans to move its riverboat casino to a new land-based gaming facility that will compete with our Bettendorf, Iowa property, and a new casino is under construction in Lake Charles, Louisiana that will compete with our property there. Some of our competitors may have better name recognition, marketing and financial resources than we do; competitors with more financial resources may therefore be able to improve the quality of, or expand, their gaming facilities in a way that we may be unable to match.

In addition, we also face the risk of further legalization and/or expansion of gaming. Certain states have recently legalized, and other states are currently considering legalizing gaming. Our existing casinos attract a significant number of their customers from Houston, Texas; South Florida; Little Rock, Arkansas; and Denver, Colorado. Our continued success depends upon drawing customers from each of these geographic markets. In the past, legislation to legalize or expand gaming has been introduced that would impact some of these markets. In July 2014, the Secretary of State of Colorado declared that proponents of an initiative to expand gaming to horse tracks in Colorado had obtained sufficient signatures to place the initiative on the ballot in November 2014. If passed, the initiative would expand gaming at Arapahoe Park horse racetrack and no more than one horse racetrack in each of Pueblo and Mesa counties where racing and wagering have taken place for at least five consecutive years. On November 4, 2014, the initiative failed. Had the initiative passed, our business would have been adversely affected, particularly our Black Hawk, Colorado property.

We expect similar proposals to legalize or expand gaming will be made in the future in various states, and it is uncertain whether such proposals will be successful. Further, because the economic recession has reduced the revenues of state governments from traditional tax sources, voters

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and state legislatures may be more sympathetic to proposals authorizing or expanding gaming in those jurisdictions.

In addition, there is no limit on the number of gaming licenses that may be granted in several of the jurisdictions in which we operate. As a result, new gaming licenses could be awarded in these jurisdictions, which could allow new gaming operators to enter our markets that could have an adverse effect on our operating results.

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

We have purchased our common stock under stock repurchase programs. These programs allow for the repurchase of up to 6,000,000 shares. To date, we have purchased 4,895,792 shares of our common stock under these programs. These programs have no approved dollar amount, nor expiration dates. No purchases have been made under the program since September 2007.

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

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

**SIGNATURE**

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

**ISLE OF CAPRI CASINOS, INC.**

Dated: December 4, 2014

/s/ Eric L. Hausler  
Eric L. Hausler  
Chief Financial Officer  
(Principal Financial Officer and Authorized Officer)

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| EXHIBIT<br>NUMBER | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1              | Sixth Amendment to Credit Agreement, dated as of October 29, 2014, among Isle of Capri Casinos, Inc., as borrower, certain subsidiaries of Isle of Capri Casinos, Inc., the financial institutions listed therein, as Lenders, and Wells Fargo Bank, National Association, as one of the Requisite Lenders, Issuing Bank, Swing Line Lender and as the administrative agent.                                                                                                                         |
| 31.1              | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                                                                                                                                                                                                                                                                                                                                                                                       |
| 31.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                                                                                                                                                                                                                                                                                                                                                                                       |
| 32.1              | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 32.2              | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 101               | The following financial statements and notes from the Isle of Capri Casinos, Inc. Quarterly Report on Form 10-Q for the quarter ended October 26, 2014, filed on December 4, 2014 formatted in XBRL: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statement of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements. |