BOCA RESORTS INC
Form 10-Q
May 13, 2003

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2003**

**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: 1-13173**

# BOCA RESORTS, INC.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware** | **65-0676005** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| **501 East Camino Real**<br>**Boca Raton, Florida**<br>(Address of Principal Executive Offices) | **33432**<br>(Zip Code) |

Registrant s telephone number, including area code: **(561) 447-5300**

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: **Not Applicable**

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

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

As of May 13, 2003, there were 39,022,079 shares of Class A Common Stock, $.01 par value per share, and 255,000 shares of Class B Common Stock, $.01 par value per share, outstanding.

**TABLE OF CONTENTS**

Table of Contents

## PART I FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

### BOCA RESORTS, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS

**(In thousands, except share data)**
**(Unaudited)**

| | March 31, 2003 | June 30, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 16,077 | $ 3,691 |
| Restricted cash | 647 | 721 |
| Accounts receivable, net | 25,321 | 21,591 |
| Inventory | 7,040 | 6,433 |
| Current portion of Premier Club notes receivable | 3,687 | 3,382 |
| Other current assets | 2,249 | 3,223 |
| Total current assets | 55,021 | 39,041 |
| Property and equipment, net | 824,684 | 822,630 |
| Intangible assets, net | 34,518 | 34,518 |
| Long-term portion of Premier Club notes receivable | 7,021 | 7,410 |
| Other assets | 10,176 | 13,137 |
| Total assets | $931,420 | $916,736 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 33,654 | $ 30,222 |
| Current portion of deferred revenue and advance deposits | 28,685 | 22,355 |
| Net liabilities of discontinued operations | 1,074 | 2,436 |
| Current portion of credit line and note payable | 26,332 | 227 |
| Total current liabilities | 89,745 | 55,240 |
| Long-term portion of credit line and note payable | | 18,793 |
| Deferred revenue, net of current portion | 36,001 | 38,073 |
| Other liabilities | 9,561 | 9,695 |
| Deferred income taxes | 33,582 | 30,052 |
| Senior subordinated notes payable | 190,145 | 192,895 |
| Premier Club refundable membership fees | 55,684 | 55,716 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Class A Common Stock, $.01 par value, 100,000,000 shares authorized and 39,022,079 and 39,538,479 shares issued and outstanding at March 31, 2003 and June 30, 2002, respectively | 390 | 395 |
| Class B Common Stock, $.01 par value, 10,000,000 shares authorized and 255,000 shares issued and outstanding at March 31, 2003 and June 30, 2002. | 3 | 3 |

| | | |
|---|---|---|
| Contributed capital | 459,362 | 464,565 |
| Retained earnings | 56,947 | 51,309 |
| Total shareholders equity | 516,702 | 516,272 |
| Total liabilities and shareholders equity | $931,420 | $916,736 |

See accompanying notes to consolidated financial statements.

Table of Contents

**BOCA RESORTS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three Months Ended March 31**
**(In thousands, except per share data)**
**(Unaudited)**

| | 2003 | 2002 |
|---|---|---|
| Leisure and recreation revenue | $100,277 | $99,988 |
| Operating expenses: | | |
| Cost of leisure and recreation services | 37,802 | 37,091 |
| Selling, general and administrative expenses | 22,576 | 21,479 |
| Depreciation | 10,073 | 8,615 |
| Total operating expenses | 70,451 | 67,185 |
| Operating income | 29,826 | 32,803 |
| Interest and other income | 39 | 50 |
| Interest expense | (5,407) | (6,026) |
| Income from continuing operations before income taxes | 24,458 | 26,827 |
| Provision for income taxes | 9,416 | 10,731 |
| Net income | $ 15,042 | $16,096 |
| Net income per share basic | $ 0.38 | $ 0.40 |
| Shares used in computing net income per share basic | 39,209 | 39,749 |
| Net income per share diluted | $ 0.38 | $ 0.40 |
| Shares used in computing net income per share diluted | 39,563 | 40,656 |

See accompanying notes to consolidated financial statements.

Table of Contents

**BOCA RESORTS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Nine Months Ended March 31**
**(In thousands, except per share data)**
**(Unaudited)**

| | 2003 | 2002 |
|---|---|---|
| Leisure and recreation revenue | $213,615 | $197,290 |
| Operating expenses: | | |
| Cost of leisure and recreation services | 95,859 | 89,029 |
| Selling, general and administrative expenses | 63,978 | 61,627 |
| Depreciation | 28,093 | 24,843 |
| Loss on early retirement of debt | 149 | 1,613 |
| Total operating expenses | 188,079 | 177,112 |
| Operating income | 25,536 | 20,178 |
| Interest and other income | 78 | 1,034 |
| Interest expense | (16,447) | (18,138) |
| Income from continuing operations before income taxes | 9,167 | 3,074 |
| Provision for income taxes | 3,529 | 1,230 |
| Income from continuing operations | 5,638 | 1,844 |
| Gain on disposition of discontinued operations, net of income taxes | | 23,728 |
| Net income | $ 5,638 | $ 25,572 |
| Income per share from continuing operations | $ 0.14 | $ 0.05 |
| Income per share from discontinued operations | | 0.60 |
| Net income per share basic | $ 0.14 | $ 0.64 |
| Shares used in computing net income per share basic | 39,367 | 39,798 |
| Income per share from continuing operations | $ 0.14 | $ 0.05 |
| Income per share from discontinued operations | | 0.59 |
| Net income per share diluted | $ 0.14 | $ 0.63 |
| Shares used in computing net income per share diluted | 39,907 | 40,557 |

See accompanying notes to consolidated financial statements.

Table of Contents

**BOCA RESORTS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended March 31**
**(In thousands)**
**(Unaudited)**

| | 2003 | 2002 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 5,638 | $ 25,572 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 28,093 | 24,843 |
| Provision for deferred income taxes | 3,529 | 1,230 |
| Impairment loss on land parcel | 2,396 | |
| Gain on sale of land parcel | (2,291) | |
| Loss on early retirement of debt | 149 | 1,613 |
| Non-cash compensation expense | 217 | |
| Gain on disposition of discontinued operations, net of income taxes | | (23,728) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (3,730) | (4,813) |
| Other assets | 3,604 | 2,836 |
| Accounts payable and accrued expenses | 2,616 | 4,962 |
| Deferred revenue and other liabilities | 4,092 | 7,599 |
| Net liabilities of discontinued operations | (1,362) | |
| Net cash provided by operating activities | 42,951 | 40,114 |
| Investing activities: | | |
| Net proceeds from the sale of land parcels | 12,786 | |
| Net proceeds from the disposition of discontinued operations | | 80,061 |
| Capital expenditures | (42,563) | (61,929) |
| Change in restricted cash | 74 | (167) |
| Net cash provided by (used in) investing activities | (29,703) | 17,965 |
| Financing activities: | | |
| Borrowings under credit facility | 37,000 | 24,500 |
| Payments under long-term debt agreements and credit facility | (29,688) | (24,672) |
| Repurchases of senior subordinated notes payable | (2,750) | (57,000) |
| Repurchases of common stock | (6,174) | (2,306) |
| Proceeds from exercise of stock options | 750 | 1,120 |
| Net cash used in financing activities | (862) | (58,358) |
| Cash provided by (used in) continuing operations | 13,748 | (80,340) |
| Cash provided by (used in) discontinued operations | (1,362) | 80,061 |
| Cash and cash equivalents, at beginning of period | 3,691 | 9,909 |
| Cash and cash equivalents, at end of period | $ 16,077 | $ 9,630 |

See accompanying notes to consolidated financial statements.

4

Table of Contents

**BOCA RESORTS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

## 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements of Boca Resorts, Inc. and subsidiaries (the Company ) have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial information furnished in this report reflects all material adjustments (including normal recurring accruals) necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire year primarily due to seasonal variations. All significant intercompany accounts have been eliminated.

## 2. Nature of Operations

The Company is an owner and operator of five luxury resorts located in Florida with hotels, conference facilities, golf courses, spas, marinas and private clubs. The Company s resorts include the Boca Raton Resort & Club (Boca Raton), the Registry Resort at Pelican Bay (Naples), the Edgewater Beach Hotel (Naples), the Hyatt Regency Pier 66 Resort and Marina (Fort Lauderdale), and the Radisson Bahia Mar Resort and Yachting Center (Fort Lauderdale). The Company also owns and operates two championship golf courses located in Florida Grande Oaks Golf Club in Davie and Naples Grande Golf Club in Naples.

The Company sold its entertainment and sports business, which primarily consisted of the operations of the Florida Panthers Hockey Club and related arena management operations, on July 25, 2001. Accordingly, the Company s entertainment and sports business has been accounted for as discontinued operations and the accompanying Unaudited Condensed Consolidated Financial Statements presented herein report separately the net liabilities and operating results of this discontinued operation.

## 3. Earnings Per Common Share

Basic earnings per share equals net income divided by the number of weighted average common shares outstanding. Diluted earnings per share includes the effects of common stock equivalents to the extent they are dilutive.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In Thousands) | | | |
| Basic weighted average shares outstanding | 39,209 | 39,749 | 39,367 | 39,798 |
| Stock options | 354 | 907 | 540 | 759 |
| Diluted weighted average shares outstanding | 39,563 | 40,656 | 39,907 | 40,557 |

Options to purchase 6.5 million and 5.8 million shares of common stock were outstanding at March 31, 2003 and 2002, respectively, but were not included in the computation of earnings per share because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be antidilutive.

## 4. Recently Implemented Accounting Standards

In August 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived

**BOCA RESORTS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (Continued)**

Assets . The new rules apply to the classification and impairment analysis conducted on long-lived assets other than intangible assets and was adopted by the Company on July 1, 2002. The new rules provide a single accounting treatment for the impairment of long-lived assets and implementation guidance regarding impairment calculations. This statement also modifies accounting and disclosure requirements for discontinued operations. The adoption of SFAS No. 144 did not have a material impact on the Company s results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt . Previously, SFAS No. 4 required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Under SFAS No. 145, gains and losses from extinguishment of debt are classified as extraordinary items only if they meet the criteria in Accounting Principles Board ( APB ) Opinion 30, Reporting the Results of Operations Discontinued Events and Extraordinary Items . Applying the provisions of APB Opinion 30 distinguishes transactions that are part of an entity s recurring operations from those that are unusual or infrequent, or that meet the criteria for classification as an extraordinary item. The Company adopted SFAS No. 145 on July 1, 2002. Accordingly, losses on the extinguishment of debt that were classified as an extraordinary item in the prior periods presented, have been reclassified to recurring operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity . The provisions of this Statement shall be effective for exit or disposal activities initiated after March 31, 2003. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity s commitment to an exit plan. The adoption of SFAS No. 146 is not anticipated to have a material impact on the Company s results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reporting results. The provisions of this statement are effective for interim and annual financial statements for fiscal years ending after December 15, 2002 and have been incorporated into these unaudited condensed consolidated financial statements and accompanying notes. See Note 7.

**5. Comprehensive Income**

Comprehensive income was the same as net income for the three and nine months ended March 31, 2003 and 2002.

**6. Long-Lived Assets and Assets to be Disposed of**

In August 2002, the Company sold a land parcel located in Naples, Florida for $5.7 million. The transaction yielded net proceeds of $5.6 million and a pre-tax gain of $2.3 million, which is included in interest and other income in the accompanying Unaudited Condensed Consolidated Statements of Operations.

In December 2002, the Company sold a land parcel located in Plantation, Florida for $7.2 million, which yielded net proceeds of $7.1 million. The Company recorded an impairment loss of $2.4 million to reflect the

Table of Contents

**BOCA RESORTS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (Continued)**

difference between the carrying value of this land parcel and the net proceeds during the three months ended September 30, 2002. The impairment loss is included in interest and other income in the accompanying Unaudited Condensed Consolidated Statements of Operations.

## 7. Stock Option Plan

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for the options granted under the intrinsic value method, which follows the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based employee compensation cost is reflected in net income. The following table summarizes the effect of accounting for these awards as if the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, had been applied.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income as reported | $15,042 | $16,096 | $5,638 | $25,572 |
| Less: total stock based compensation determined under fair value based method for awards, net of related tax effects | 448 | 465 | 1,343 | 1,396 |
| Pro forma net income | $14,594 | $15,631 | $4,295 | $24,176 |
| Income per share from continuing operations, as reported | $ 0.38 | $ 0.40 | $ 0.14 | $ 0.05 |
| Income per share from discontinued operations, as reported | | | | 0.60 |