

BOCA RESORTS INC
Form 10-Q
May 04, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

or

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

For the transition period from _____ to _____

Commission file number: 1-13173

BOCA RESORTS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation)

65-0676005
(I.R.S. Employer Identification No.)

501 East Camino Real
Boca Raton, Florida
(Address of Principal Executive Offices)

33432
(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 No

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

As of April 30, 2004, there were 39,911,954 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.

Part I Financial Information

Item 1. Financial Statements

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(000 s Omitted, Except Share Data)
(Unaudited)

| | March 31, 2004 | June 30, 2003 |
|--|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 26,093 | \$ 8,110 |
| Restricted cash | 152 | 641 |
| Accounts receivable, net | 26,174 | 20,960 |
| Income taxes receivable | 12,600 | |
| Inventory | 7,131 | 6,616 |
| Current portion of Premier Club notes receivable | 4,354 | 3,631 |
| Other current assets | 3,126 | 3,238 |
| | <u> </u> | <u> </u> |
| Total current assets | 79,630 | 43,196 |
| Property and equipment, net | 813,743 | 823,681 |
| Intangible assets | 35,937 | 35,937 |
| Long-term portion of Premier Club notes receivable | 9,153 | 8,157 |
| Other assets | 8,145 | 9,179 |
| | <u> </u> | <u> </u> |
| Total assets | \$946,608 | \$920,150 |
| | <u> </u> | <u> </u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 37,057 | \$ 33,515 |
| Current portion of deferred revenue and advance deposits | 24,836 | 23,288 |
| Net liabilities of discontinued operations | 1,045 | 1,074 |
| Current portion of credit line and note payable | | 79 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 62,938 | 57,956 |
| Credit line and note payable | | 18,000 |
| Deferred revenue, net of current portion | 33,316 | 33,498 |
| Other liabilities | 9,560 | 9,560 |
| Deferred income taxes | 52,849 | 34,242 |
| Senior subordinated notes payable | 190,145 | 190,145 |
| Premier Club refundable membership fees | 54,828 | 56,700 |
| | <u> </u> | <u> </u> |
| Total liabilities | 403,636 | 400,101 |
| | <u> </u> | <u> </u> |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Class A Common Stock, \$.01 par value, 100,000,000 shares authorized and 39,890,949 and 39,035,078 shares issued and outstanding at March 31, 2004 and June 30, 2003, respectively | 399 | 390 |
| Class B Common Stock, \$.01 par value, 10,000,000 shares authorized and 255,000 shares issued and outstanding at March 31, | 3 | 3 |

Edgar Filing: BOCA RESORTS INC - Form 10-Q

2004 and June 30, 2003.

| | | |
|--|-------------------|-------------------|
| Contributed capital | 470,208 | 459,548 |
| Retained earnings | 72,362 | 60,108 |
| | <u> </u> | <u> </u> |
| Total shareholders' equity | 542,972 | 520,049 |
| | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$946,608 | \$920,150 |
| | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31
(000 s Omitted, Except Per Share Data)
(Unaudited)

| | 2004 | 2003 |
|---|-------------------|-------------------|
| Leisure and recreation revenue | \$ 113,120 | \$ 100,277 |
| Operating expenses: | | |
| Cost of leisure and recreation services | 41,920 | 37,802 |
| Selling, general and administrative expenses | 22,633 | 22,576 |
| Depreciation | 10,368 | 10,073 |
| | <u>74,921</u> | <u>70,451</u> |
| Total operating expenses | | |
| Operating income | 38,199 | 29,826 |
| Interest income and other income (expense) | (45) | 39 |
| Interest expense | (5,253) | (5,407) |
| | <u>32,901</u> | <u>24,458</u> |
| Income before provision for income taxes | | |
| Provision for income taxes | (12,666) | (9,416) |
| | <u>20,235</u> | <u>15,042</u> |
| Net income | \$ 20,235 | \$ 15,042 |
| | <u> </u> | <u> </u> |
| Net income per share basic | \$.51 | \$.38 |
| | <u> </u> | <u> </u> |
| Net income per share diluted | \$.49 | \$.38 |
| | <u> </u> | <u> </u> |
| Weighted average shares used in computing net income per share basic | 40,025 | 39,209 |
| | <u> </u> | <u> </u> |
| Weighted average shares used in computing net income per share diluted | 41,594 | 39,563 |
| | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Nine Months Ended March 31
(000 s Omitted, Except Per Share Data)
(Unaudited)

| | 2004 | 2003 |
|--|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| Leisure and recreation revenue | \$233,051 | \$213,615 |
| Operating expenses: | | |
| Cost of leisure and recreation services | 101,795 | 95,859 |
| Selling, general and administrative expenses | 65,221 | 63,978 |
| Depreciation | 30,476 | 28,093 |
| Loss on early retirement of debt | | 149 |
| | <u> </u> | <u> </u> |
| Total operating expenses | 197,492 | 188,079 |
| | <u> </u> | <u> </u> |
| Operating income | 35,559 | 25,536 |
| Interest and other income | 131 | 78 |
| Interest expense | (15,765) | (16,447) |
| | <u> </u> | <u> </u> |
| Income before provision for income taxes | 19,925 | 9,167 |
| Provision for income taxes | (7,671) | (3,529) |
| | <u> </u> | <u> </u> |
| Net income | \$ 12,254 | \$ 5,638 |
| | <u> </u> | <u> </u> |
| Net income per share - basic | \$.31 | \$.14 |
| | <u> </u> | <u> </u> |
| Net income per share - diluted | \$.30 | \$.14 |
| | <u> </u> | <u> </u> |
| Weighted average shares used in computing net income per share - basic | 39,618 | 39,367 |
| | <u> </u> | <u> </u> |
| Weighted average shares used in computing net income per share - diluted | 40,690 | 39,907 |
| | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended March 31
(000 s Omitted)
(Unaudited)

| | 2004 | 2003 |
|---|-----------|-----------|
| Operating activities: | | |
| Net income | \$ 12,254 | \$ 5,638 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 30,476 | 28,093 |
| Non-cash compensation expense | 453 | 217 |
| Impairment loss on land parcel | | 2,396 |
| Gain on sale of land parcel | | (2,291) |
| Loss on early retirement of debt | | 149 |
| Provision for deferred income taxes | 7,671 | 3,529 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (5,214) | (3,730) |
| Other assets | (1,088) | 3,604 |
| Accounts payable and accrued expenses | 6,842 | 2,616 |
| Deferred revenue and other liabilities | (506) | 4,092 |
| Net liabilities of discontinued operations | (29) | (1,362) |
| Net cash provided by operating activities | 50,859 | 42,951 |
| Investing activities: | | |
| Capital expenditures | (23,838) | (42,563) |
| Change in restricted cash | 489 | 74 |
| Net proceeds from the sale of land parcels | | 12,786 |
| Net cash used in investing activities | (23,349) | (29,703) |
| Financing activities: | | |
| Borrowings under credit facilities | 24,000 | 37,000 |
| Payments under long-term debt agreements and credit facility | (42,079) | (29,688) |
| Proceeds from exercise of stock options | 8,552 | 750 |
| Repurchases of common stock | | (6,174) |
| Repurchases of senior subordinated notes payable | | (2,750) |
| Net cash used in financing activities | (9,527) | (862) |
| Cash provided by continuing operations | 18,012 | 13,748 |
| Cash used in discontinued operations | (29) | (1,362) |
| Cash and cash equivalents, at beginning of period | 8,110 | 3,691 |
| Cash and cash equivalents, at end of period | \$ 26,093 | \$ 16,077 |

See accompanying notes to consolidated financial statements.

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, 2004 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 golf clubs located in Florida, Grande Oaks Golf Club in Davie and Naples Grande Golf Club in Naples, and owns and operates two golf courses in Boca Raton that are part of the Boca Raton Resort & Club.

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, | |
|---|------------------------------------|--------|-----------------------------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| (In thousands) | | | | |
| Basic weighted average shares outstanding | 40,025 | 39,209 | 39,618 | 39,367 |
| Stock options | 1,569 | 354 | 1,072 | 540 |
| Diluted weighted average shares outstanding | 41,594 | 39,563 | 40,690 | 39,907 |

Options to purchase shares of common stock totaling 6.6 million and 6.5 million were outstanding at March 31, 2004 and 2003, respectively, but were not included in the computation of income per share for the nine-month periods because the effect would be antidilutive.

4. Income Taxes Receivable

The Company adopted a new tax accounting policy whereby it uses tax lives and methods for its property and equipment as permitted by the Internal Revenue Service in various rulings and regulations. The tax accounting policy has resulted in a decrease in income taxes currently payable, as well as, a refund of income taxes paid in prior years totaling approximately \$12.6 million. The refund was received in April 2004. The income tax accounting method change has no impact on the Company's total income tax expense for financial reporting purposes.

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

5. 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 Accounting Principals Board Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based employee compensation cost is reflected in net income, except for certain non-cash compensation expense associated with the modification in terms of stock option awards which totaled \$453,000 (or \$279,000 net of benefit for income taxes) during the nine months ended March 31, 2004 and \$217,000 (or \$133,000 net of benefit for income taxes) during the nine months ended March 31, 2003. The following table summarizes the effect of accounting for stock option awards as if the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, as amended by SFAS No. 148, had been applied for the three and nine months ended March 31, 2004 and 2003 (000 s omitted):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|----------|-----------------------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income as reported | \$20,235 | \$15,042 | \$12,254 | \$5,638 |
| Less: total stock based compensation determined under fair value based method for awards, net of related tax effects | (305) | (365) | (1,036) | (1,213) |
| Pro forma net income | \$19,930 | \$14,677 | \$11,218 | \$4,425 |
| Net income per share basic , as reported | \$.51 | \$.38 | \$.31 | \$.14 |
| Net income per share diluted, as reported | \$.49 | \$.38 | \$.30 | \$.14 |
| Net income per share basic, Pro forma | \$.50 | \$.37 | \$.28 | \$.11 |
| Net income per share diluted, Pro forma | \$.48 | \$.37 | \$.28 | \$.11 |

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions for the three and nine months ended March 31, 2004 and 2003:

| | 2004 | 2003 |
|-------------------------|---------|---------|
| Risk free interest rate | 1.00% | 1.50% |
| Expected lives | 6 years | 6 years |
| Expected volatility | 30% | 30% |

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

6. Shareholders Equity

The accompanying table sets forth the components of the change in shareholders equity for the nine months ended March 31, 2004 (000 s omitted):

| | Class A Common Stock | | Class B Common Stock | | Contributed Capital | Retained Earnings | Total Shareholders Equity |
|---|-------------------------|--------|-------------------------|--------|------------------------|----------------------|---------------------------------|
| | Number of Shares | Amount | Number of Shares | Amount | | | |
| Balance, June 30, 2003. | 39,035 | \$ 390 | 255 | \$ 3 | \$ 459,548 | \$ 60,108 | \$ 520,049 |
| Net income | | | | | | 12,254 | 12,254 |
| Exercise of stock options | 856 | 9 | | | 8,543 | | 8,552 |
| Tax deduction associated with exercise of stock options | | | | | 1,664 | | 1,664 |
| Modification in terms of stock option awards | | | | | 453 | | 453 |
| Balance, March 31, 2004 | 39,891 | \$ 399 | 255 | \$ 3 | \$ 470,208 | \$ 72,362 | \$ 542,972 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report may not contain all the information that is important to you and should be read together with the Annual Report on Form 10-K for the fiscal year ended June 30, 2003, including the disclosure relating to critical accounting policies in Management's Discussion and Analysis. The Securities and Exchange Commission has requested that all registrants list their most critical accounting policies in MD&A. The SEC indicated that a critical accounting policy is one which is both important to the portrayal of the Company's financial position and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Business Philosophy

The Company's business strategy is to focus on internal expansion and development opportunities at its existing resort properties. However, management continuously evaluates ownership, acquisition and divestiture alternatives with the intention of maximizing shareholder value.

Seasonality

The resort operations are generally seasonal. The resorts historically experience greater revenue, costs and income in the third and fourth quarters of the fiscal year ended June 30 due to increased occupancy and room rates during the winter and spring months. Historically, 16%, 23%, 36% and 25% of annual revenue has been derived during the first, second, third and fourth fiscal quarters, respectively.

Non-GAAP Financial Measures

This quarterly report on Form 10-Q contains a non-GAAP financial measure, within the meaning of applicable Securities and Exchange Commission rules, which we believe is useful to investors. This financial measure is earnings before extraordinary and non-recurring items, interest expense, interest income, income taxes, depreciation and amortization (EBITDA). EBITDA is used by management, the lodging industry and certain investors as an indicator of the Company's historical ability to service debt, to sustain potential future increases in debt and to satisfy capital requirements. However, EBITDA is not intended to represent cash flows for the period. In addition, it has not been presented as an alternative to either (a) operating income or loss (as determined by GAAP) as an indicator of operating performance or (b) cash flows from operating, investing and financing activities (as determined by GAAP) and is thus susceptible to varying calculations. EBITDA as presented may not be comparable to other similarly titled measures of other companies.

Edgar Filing: BOCA RESORTS INC - Form 10-Q

The accompanying table sets forth the operating results for the three and nine months ended March 31, 2004 and 2003 (000 \$ omitted):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|------------------|--------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Leisure and recreation revenue | \$ 113,120 | \$ 100,277 | \$ 233,051 | \$ 213,615 |
| Operating expenses: | | | | |
| Cost of leisure and recreation services | 41,920 | 37,802 | 101,795 | 95,859 |
| Selling, general and administrative expenses: | | | | |
| Leisure and recreation | 20,509 | 20,420 | 58,760 | 58,107 |
| Corporate | 2,124 | 2,156 | 6,461 | 5,871 |
| Depreciation: | | | | |
| Leisure and recreation | 10,316 | 10,024 | 30,318 | 27,938 |
| Corporate | 52 | 49 | 158 | 155 |
| Loss on early retirement of debt | | | | 149 |
| | <u>74,921</u> | <u>70,451</u> | <u>197,492</u> | <u>188,079</u> |
| Operating income (loss): | | | | |
| Leisure and recreation | 40,375 | 32,031 | 42,178 | 31,711 |
| Corporate | (2,176) | (2,205) | (6,619) | (6,175) |
| | <u>38,199</u> | <u>29,826</u> | <u>35,559</u> | <u>25,536</u> |
| Interest income and other income (expense) | (45) | 39 | 131 | 78 |
| Interest expense | (5,253) | (5,407) | (15,765) | (16,447) |
| | <u>32,901</u> | <u>24,458</u> | <u>19,925</u> | <u>9,167</u> |
| Income before provision for income taxes | 32,901 | 24,458 | 19,925 | 9,167 |
| Provision for income taxes | (12,666) | (9,416) | (7,671) | (3,529) |
| | <u>\$ 20,235</u> | <u>\$ 15,042</u> | <u>\$ 12,254</u> | <u>\$ 5,638</u> |
| Net cash provided by operating activities | \$ 41,478 | \$ 29,412 | \$ 50,859 | \$ 42,951 |
| Net cash used in investing activities | \$ (3,687) | \$ (11,851) | \$ (23,349) | \$ (29,703) |
| Net cash used in financing activities | \$ (16,015) | \$ (15,327) | \$ (9,527) | \$ (862) |
| EBITDA | \$ 48,567 | \$ 39,953 | \$ 66,488 | \$ 53,995 |

Edgar Filing: BOCA RESORTS INC - Form 10-Q

The accompanying table reconciles EBITDA to net income for the three and nine months ended March 31, 2004 and 2003 (000's omitted):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|-----------|--------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| EBITDA | \$ 48,567 | \$ 39,953 | \$ 66,488 | \$ 53,995 |
| Less: Depreciation | (10,368) | (10,073) | (30,476) | (28,093) |
| Less: Interest expense | (5,253) | (5,407) | (15,765) | (16,447) |
| Less: Non-recurring, non-cash compensation expense | | (54) | (453) | (217) |
| Less: Loss on early retirement of debt | | | | (149) |
| Less: Provision for income taxes | (12,666) | (9,416) | (7,671) | (3,529) |
| Plus/(Less): Interest income and other expense | (45) | 39 | 131 | 78 |
| Net income | \$ 20,235 | \$ 15,042 | \$ 12,254 | \$ 5,638 |

See Condensed Consolidated Statements of Cash Flow for a reconciliation of net income to net cash flow from operating activities for the nine months ended March 31, 2004 and 2003.

The accompanying table sets forth additional operating data for the three and nine months ended March 31, 2004 and 2003 (000's omitted, except operating statistics):

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|---|---------------------------------|------------|----------|--------------------------------|------------|----------|
| | 2004 | 2003 | % Change | 2004 | 2003 | % Change |
| Revenue: | | | | | | |
| Room revenue | \$ 49,831 | \$ 44,994 | 11% | \$ 93,244 | \$ 86,233 | 8% |
| Non-room related revenue | 63,289 | 55,283 | 14% | 139,807 | 127,382 | 10% |
| Total leisure and recreation revenue | \$ 113,120 | \$ 100,277 | 13% | \$ 233,051 | \$ 213,615 | 9% |
| Operating Statistics: | | | | | | |
| Available room nights | 210,756 | 208,530 | 1% | 637,023 | 634,858 | |
| Average daily rate | \$ 286.01 | \$ 284.04 | | \$ 217.79 | \$ 220.08 | (1)% |
| Occupancy | 82.7% | 76.0% | 9% | 67.2% | 61.7% | 9% |
| Room revenue per available room | \$ 236.44 | \$ 215.77 | 10% | \$ 146.37 | \$ 135.83 | 8% |
| Total leisure and recreation revenue per available room | \$ 536.74 | \$ 480.87 | 12% | \$ 365.84 | \$ 336.48 | 9% |

Leisure and Recreation Revenue

Leisure and recreation revenue totaled \$113.1 million and \$100.3 million for the three months ended March 31, 2004 and 2003, respectively, and \$233.1 million and \$213.6 million for the nine months ended March 31, 2004 and 2003, respectively. The increase in revenue for the three and nine months ended March 31, 2004, compared to the three and nine months ended March 31, 2003, resulted primarily from increases in occupancy at each of the Company's properties. The Company had 15,820 more occupied room nights during the three months ended March 31, 2004 than during the three months ended March 31, 2003 and 36,300 more occupied room nights during the nine months ended March 31, 2004 than during the nine months ended March 31, 2003. Management believes increases in resort occupancy are largely the result of an improving economic landscape, significant property enhancements, the high quality of the Company's assets, a commitment to quality customer service resulting in strong guest loyalty and a favorable market mix that combines high-end leisure travelers and corporate groups.

Leisure and Recreation Operating Expenses

Cost of leisure and recreation services totaled \$41.9 million, or 37% of revenue, for the three months ended March 31, 2004, compared to cost of leisure and recreation services of \$37.8 million, or 38% of revenue, for the three months ended March 31, 2003. Cost of leisure and recreation services totaled \$101.8 million, or 44% of revenue, for the nine months ended March 31, 2004, compared to cost of leisure and recreation services of \$95.9 million, or 45% of revenue, for the nine months ended March 31, 2003. Cost of leisure and recreation services primarily consisted of direct costs to service rooms, marinas, food and beverage operations, retail establishments, spas and other amenities at the resorts.

Leisure and recreation selling, general and administrative expenses (S,G&A) totaled \$20.5 million, or 18% of revenue, for the three months ended March 31, 2004, compared to S,G&A of \$20.4 million, or 20% of revenue, for the three months ended March 31, 2003. Leisure and recreation S,G&A totaled \$58.8 million, or 25% of revenue, for the nine months ended March 31, 2004, compared to S,G&A of \$58.1 million, or 27% of revenue, for the nine months ended March 31, 2003. Leisure and recreation S,G&A includes, among other items, administrative payroll costs, selling and marketing expenses, energy and property costs, insurance, real estate taxes, franchise agreement fees and other administrative expenses. Although leisure and recreation S,G&A as a percent of revenue decreased for the three and nine months ended March 31, 2004, compared to the three and nine months ended March 31, 2003, the Company was adversely affected by an increase in energy and insurance costs, which were partially offset by a decrease in costs following the expiration of two operating leases at country club facilities.

Leisure and recreation depreciation expense totaled \$10.3 million and \$10.0 million for the three months ended March 31, 2004 and 2003, respectively, and \$30.3 million and \$27.9 million for the nine months ended March 31, 2004 and 2003, respectively. The increase in depreciation expense for the nine months ended March 31, 2004, compared to the nine months ended March 31, 2003, was primarily the result of an increase in depreciation expense following the completion of room renovations at the Registry Resort (resulting in a \$1.3 million increase in depreciation expense), the marina renovation at the Bahia Mar Resort & Yachting Center (resulting in a \$645,000 increase in depreciation expense) and enhancements at the Boca Raton Resort & Club including the renovation of the central pool area and pool-side restaurant, a redesigned driving range, an improved golf staging area, an enlarged croquet lawn and renovations of a casual restaurant at the beach club (resulting in a \$586,000 increase in depreciation expense).

Leisure and Recreation Operating Income

Leisure and recreation operations reported operating income of \$40.4 million and \$32.0 million for the three months ended March 31, 2004 and 2003, respectively, and \$42.2 million and \$31.7 million for the nine months ended March 31, 2004 and 2003, respectively. The increase in operating results for the three and nine months ended March 31, 2004, versus the three and nine months ended March 31, 2003, was primarily due to an increase in revenue partially offset by higher depreciation expense.

Corporate General and Administrative Expenses and Corporate Depreciation Expense

Corporate general and administrative expenses totaled \$2.1 million and \$2.2 million for the three months ended March 31, 2004 and 2003, respectively, and \$6.5 million and \$5.9 million for the nine months ended March 31, 2004 and 2003, respectively. The increase in corporate general and administrative expenses during the nine months ended March 31, 2004, compared to the nine months ended March 31, 2003, was primarily because of a \$500,000 increase in costs associated with corporate governance issues pursuant to the Sarbanes-Oxley Act of 2002 and directors and officers liability insurance.

Corporate depreciation expense totaled \$52,000 and \$49,000 for the three months ended March 31, 2004 and 2003, respectively, and \$158,000 and \$155,000 for the nine months ended March 31, 2004 and 2003, respectively, and represents depreciation on corporate furniture and equipment.

Interest Expense

Interest expense totaled \$5.3 million and \$5.4 million for the three months ended March 31, 2004 and 2003, respectively, and \$15.8 million and \$16.4 million for the nine months ended March 31, 2004 and 2003, respectively. The average debt balance was \$206.9 million for the nine months ended March 31, 2004, compared to \$220.3 million for the nine months ended March 31, 2003, while the average cost of borrowing for each nine-month period remained level at 10%. The \$1.0 million decrease in interest expense resulting from lower average outstanding debt during the nine months ended March 31, 2004 was partially offset by a decrease in capitalized interest.

Provision for Income Taxes

The Company recorded provisions for income taxes equal to 38.5% of pretax income during the three and nine months ended March 31, 2004 and 2003.

Net Income

Net income totaled \$20.2 million and \$15.0 million for the three months ended March 31, 2004 and 2003, respectively, and \$12.3 million and \$5.6 million for the nine months ended March 31, 2004 and 2003, respectively. The improvement in operating results for the three and nine months ended March 31, 2004, versus the three and nine months ended March 31, 2003, was primarily due to an increase in revenue partially offset by higher depreciation expense.

Liquidity and Capital Resources

Unrestricted cash and cash equivalents increased to \$26.1 million at March 31, 2004, from \$8.1 million at June 30, 2003. The major components of the change are discussed below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities totaled \$50.9 million and \$43.0 million for the nine months ended March 31, 2004 and 2003, respectively. The increase in net cash provided by operating activities for the nine months ended March 31, 2004, compared to the nine months ended March 31, 2003, was partially the result of an increase in resort revenue and corresponding cash flow. In addition, the Company conserved cash through certain income tax accounting method changes. Under the Company's tax accounting policy, it uses tax lives and methods for its property and equipment as permitted by the Internal Revenue Service in various rulings and regulations, which resulted in a decrease in income taxes currently payable. Furthermore, the Company received a refund of income taxes paid in prior years totaling approximately \$12.6 million in April 2004. The income tax accounting method change has no impact on the Company's total income tax expense for financial reporting purposes.

Net Cash Used In Investing Activities

Net cash used in investing activities totaled \$23.3 million and \$29.7 million for the nine months ended March 31, 2004 and 2003, respectively. Although the Company received \$12.8 million in proceeds from the sale of land parcels located in Naples and Fort Lauderdale, Florida during the prior year nine-month period, it incurred \$18.7 million more in capital expenditures during the same period as more fully discussed below.

During the nine months ended March 31, 2004 capital expenditures included the final stages of a marina renovation at the Bahia Mar Resort and Yachting Center. This extensive marina renovation, which was funded substantially from operations, results in a state-of-the art yachting center with 245 reconfigured boat slips, sized to accommodate larger yachts ranging from 80 feet to over 200 feet, without reducing the rentable linear feet. The Company also completed a number of smaller initiatives during the nine-month period including the renovation of the pool area at the Boca Raton Resort & Club and new themed restaurants at Pier 66 Resort and Marina and at Registry Resort.

Edgar Filing: BOCA RESORTS INC - Form 10-Q

During the nine months ended March 31, 2003, capital expenditures included a comprehensive room renovation at the Registry Resort covering 395 guestrooms, which included all new furnishings and new five fixture bathrooms. The Company also renovated approximately 60 guest suites at the Edgewater Beach Hotel.

The change in restricted cash was not material from June 30, 2003 to March 31, 2004 or from June 30, 2002 to March 31, 2003.

Net Cash Used in Financing Activities

Net cash used in financing activities totaled \$9.5 million and \$862,000 during the nine months ended March 31, 2004 and 2003, respectively. Financing activities for the periods primarily includes borrowings, net of repayments, under the Company's revolving credit facility, proceeds from the exercise of stock options, as well as, repurchases of the Company's common stock and senior subordinated notes payable. The decrease in net borrowings during the nine months ended March 31, 2004, compared to the nine months ended March 31, 2003, was the result of a decrease in capital expenditures and an increase in cash flow from operating activities over the same period.

Capital Resources

The Company's capital resources are provided from both internal and external sources. The primary capital resources from internal sources include (1) room rentals, food and beverage sales, retail sales, spa revenue, golf revenue, tennis revenue, marina and conference service revenue at the resorts and (2) Premier Club membership revenue, net of related costs. The primary external sources of liquidity have been the issuance of debt securities, borrowing under term loans and credit lines, the issuance of Company stock for property acquisitions and the exercise of non-qualified stock options by employees pursuant to the Company's stock option plan.

As of March 31, 2004, the Company had no borrowings under its revolving credit line (which matures on June 30, 2005) and had \$124.2 million in immediate availability. As a result of the current availability under this credit line, combined with cash on hand, management believes the Company has sufficient funds to continue its capital enhancement plans during the remainder of fiscal 2004 (which are not expected to exceed \$3.0 million) and support on-going operations, including meeting debt service obligations as they come due.

As of March 31, 2004, the Company had \$190.1 million principal amount of 9.875% senior subordinated notes due April 15, 2009 outstanding. The notes are redeemable at the option of the Company, in whole or in part, in cash, together with accrued and unpaid interest, if any, to the date of redemption. The optional redemption prices for the twelve month periods beginning April 15 are: 2004 - 104.9375%; 2005 - 103.2910%; 2006 - 101.6450% and 2007 and thereafter -100.00%.

Financial Condition

Significant changes in balance sheet data from June 30, 2003 to March 31, 2004 are discussed below.

Accounts Receivable

Accounts receivable increased to \$26.2 million at March 31, 2004, from \$21.0 million at June 30, 2003. It is customary for the Company's trade receivables to rise during certain periods of the year as a result of the seasonality of its business and the current period increase in accounts receivable is consistent with changes in the comparable prior year period.

Current and Long-Term Portion of Premier Club Notes Receivable

Current and long-term portion of Premier Club notes receivable increased to \$13.5 million at March 31, 2004, from \$11.8 million at June 30, 2003. The increase in Premier Club notes receivable was primarily due to more membership sales at Grande Oaks Golf Club.

Other Assets

Other assets decreased to \$8.1 million at March 31, 2004, from \$9.2 million at June 30, 2003. The decrease in other assets was primarily the result of amortizing \$1.0 million in debt issuance costs, which are included in other assets in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased to \$37.1 million at March 31, 2004, from \$33.5 million at June 30, 2003. The increase in accounts payable and accrued expenses was primarily the result of a \$4.6 million increase in accrued interest on the Company's senior subordinated notes, partially offset by a \$1.3 million decrease in income taxes payable. Interest on the notes is paid semi-annually on October 15 and April 15. At March 31, 2004, the accrual for interest totaled \$8.6 million (and represented interest for 167 days on \$190.1 million outstanding notes). At June 30, 2003, the accrual for interest totaled \$4.0 million (and represented interest for 76 days on \$190.1 million outstanding notes).

Current Portion of Deferred Revenue and Advance Deposits

Current portion of deferred revenue and advance deposits increased to \$24.8 million at March 31, 2004, from \$23.3 million at June 30, 2003. The increase substantially related to the receipt of annual Premier Club dues at the Boca Raton Resort & Club. The Company bills annual Premier Club dues in August of each year. The annual dues are being recognized as revenue ratably over the membership year, which commenced on October 1.

Income Taxes Receivable and Deferred Income Taxes

Deferred income taxes increased to \$52.8 million at March 31, 2004, from \$34.2 million at June 30, 2003. The increase was the result of recording a \$7.7 million provision for income taxes following the pre-tax earnings for the March nine-month period, together with a \$12.6 million increase in deferred taxes (and a corresponding increase to income taxes receivable) following certain accounting method changes for federal income tax purposes which resulted in a refund of previously paid income taxes in April 2004. See Working Capital discussion below. These increases to deferred income taxes were partially offset by a \$1.7 million decrease which reflects the tax effected tax deduction associated with the exercise of employee stock options.

Working Capital

Current assets exceeded current liabilities by \$16.7 million at March 31, 2004. Current liabilities exceeded current assets by \$14.8 million at June 30, 2003. The increase in working capital was primarily because the Company made certain income tax accounting method changes. Under the Company's tax accounting policy, it uses tax lives and methods for its property and equipment as permitted by the Internal Revenue Service in various rulings and regulations, which resulted in a decrease in income taxes currently payable. The income tax accounting method change has no impact on the Company's total income tax expense for financial reporting purposes. Furthermore, the Company received a refund of income taxes paid in prior years totaling approximately \$12.6 million in April 2004. Such amount is reflected in income taxes receivable in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Forward-Looking Statements

Some of the information in this report may contain forward-looking statements. These statements discuss future expectations, contain projections of results of operations or of financial position, or state other forward-looking information. When considering such forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report. The risk factors include certain known and unknown risks and uncertainties, and could cause the Company's actual results to differ materially from those contained in any forward looking statement.

These risk factors include, among others, risks relating to travel; risks associated with construction and development at the Company's properties; competition in the Company's principal business; the availability of financing on terms suitable to the Company and the Company's dependence on key personnel, as well as other risk factors discussed from time to time in the Company's Securities and Exchange Commission filings. Risks relating to travel include a change in travel patterns resulting from slowing economic conditions and geopolitical conditions, as well as changes in corporate policies relating to group meetings and air or other travel disruption.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Not Applicable.

Item 4. *Controls and Procedures*

As of March 31, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chairman of the board (the Company's principal executive officer) and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in its periodic filings with the Securities and Exchange Commission (SEC) is effectively recorded, processed and reported within the time periods specified in the SEC's rules and forms. In designing and evaluating the disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based on the foregoing, the Company's chairman of the board and chief financial officer concluded as of March 31, 2004 that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. Additionally, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

Part II Other Information

Item 1. Legal Proceedings

The Company is not currently involved in any material legal proceedings.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

| Exhibits | Description Of Exhibit |
|----------|--|
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act H. Wayne Huizenga. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Wayne Moor. |
| 32.1 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act. |

(b) Reports on Form 8-K

None

SIGNATURES

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

BOCA RESORTS, INC.

By: */s/ WAYNE MOOR*

Wayne Moor
*Senior Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)*

By: */s/ MARYJO FINOCCHIARO*

MaryJo Finocchiaro
Vice President and Corporate Controller (Principal Accounting Officer)

Date: May 4, 2004