

BOCA RESORTS INC  
Form 10-Q  
February 03, 2004

**Table of Contents**

---

---

**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 December 31, 2003**

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)*

**501 East Camino Real**

**Boca Raton, Florida**

*(Address of Principal Executive Offices)*

**65-0676005**

*(I.R.S. Employer Identification No.)*

**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 January 30, 2004, there were 39,732,919 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**

PART I -- FINANCIAL INFORMATION

PART II -- OTHER INFORMATION

SIGNATURES

EX-31.1 Section 302 Certification of CEO

EX-31.2 Section 302 Certification of CFO

EX-32.1 Section 906 Certification of CEO & CFO

---

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****BOCA RESORTS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2003	June 30, 2003
	(Unaudited) (000 s Omitted, Except Share Data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,317	\$ 8,110
Restricted cash	152	641
Accounts receivable, net	19,448	20,960
Inventory	7,663	6,616
Current portion of Premier Club notes receivable	3,927	3,631
Other current assets	4,196	3,238
	<hr/>	<hr/>
Total current assets	39,703	43,196
Property and equipment, net	820,486	823,681
Intangible assets	35,937	35,937
Long-term portion of Premier Club notes receivable	8,794	8,157
Other assets	8,454	9,179
	<hr/>	<hr/>
Total assets	\$913,374	\$920,150
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 26,765	\$ 33,515
Current portion of deferred revenue and advance deposits	30,885	23,288
Net liabilities of discontinued operations	1,045	1,074
Current portion of credit line and note payable		79
	<hr/>	<hr/>
Total current liabilities	58,695	57,956
Credit line and note payable	20,000	18,000
Deferred revenue, net of current portion	33,462	33,498
Other liabilities	9,560	9,560
Deferred income taxes	28,456	34,242
Senior subordinated notes payable	190,145	190,145
Premier Club refundable membership fees	55,178	56,700
	<hr/>	<hr/>
Total liabilities	395,496	400,101
	<hr/>	<hr/>
Commitments and contingencies		
Shareholders' equity:		
Class A Common Stock, \$.01 par value, 100,000,000 shares authorized and 39,512,459 and 39,035,078 shares issued and outstanding at December 31, 2003 and June 30, 2003, respectively	396	390
	3	3

## Edgar Filing: BOCA RESORTS INC - Form 10-Q

Class B Common Stock, \$.01 par value, 10,000,000 shares  
authorized and 255,000 shares issued and outstanding at  
December 31, 2003 and June 30, 2003.

Contributed capital	465,352	459,548
Retained earnings	52,127	60,108
	<u>          </u>	<u>          </u>
Total shareholders' equity	517,878	520,049
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$913,374	\$920,150
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

Table of Contents

## BOCA RESORTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended December 31

	2003	2002
	(000 s Omitted, Except Per Share Data) (Unaudited)	
Leisure and recreation revenue	\$ 72,942	\$ 67,046
Operating expenses:		
Cost of leisure and recreation services	33,261	31,656
Selling, general and administrative expenses	21,699	21,288
Depreciation	10,146	9,074
Loss on early retirement of debt		149
	<u>        </u>	<u>        </u>
Total operating expenses	65,106	62,167
	<u>        </u>	<u>        </u>
Operating income	7,836	4,879
Interest and other income	117	9
Interest expense	(5,430)	(5,429)
	<u>        </u>	<u>        </u>
Income (loss) before (provision) benefit for income taxes	2,523	(541)
(Provision) benefit for income taxes	(972)	208
	<u>        </u>	<u>        </u>
Net income (loss)	\$ 1,551	\$ (333)
	<u>        </u>	<u>        </u>
Net income (loss) per share   basic and diluted	\$ .04	\$ (.01)
	<u>        </u>	<u>        </u>
Weighted average shares used in computing net income (loss) per share   basic	39,508	39,236
	<u>        </u>	<u>        </u>
Weighted average shares used in computing net income (loss) per share   diluted	40,516	39,236
	<u>        </u>	<u>        </u>

See accompanying notes to consolidated financial statements.

**Table of Contents****BOCA RESORTS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Six Months Ended December 31**

	<u>2003</u>	<u>2002</u>
	(Unaudited) (000 s Omitted, Except Per Share Data)	
Leisure and recreation revenue	\$ 119,931	\$ 113,338
Operating expenses:		
Cost of leisure and recreation services	59,875	58,057
Selling, general and administrative expenses	42,588	41,401
Depreciation	20,108	18,020
Loss on early retirement of debt		149
	<u>122,571</u>	<u>117,627</u>
Operating loss	(2,640)	(4,289)
Interest and other income	176	39
Interest expense	(10,512)	(11,040)
	<u>(12,976)</u>	<u>(15,290)</u>
Loss before benefit for income taxes	(12,976)	(15,290)
Benefit for income taxes	4,995	5,887
	<u>(7,981)</u>	<u>(9,403)</u>
Net loss	\$ (7,981)	\$ (9,403)
	<u>(.20)</u>	<u>(.24)</u>
Net loss per share basic and diluted	\$	\$
	<u>39,417</u>	<u>39,444</u>
Weighted average shares used in computing net loss per share basic and diluted	39,417	39,444

See accompanying notes to consolidated financial statements.

**Table of Contents****BOCA RESORTS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Six Months Ended December 31**

	<u>2003</u>	<u>2002</u>
	(Unaudited)	
	(000 s Omitted)	
<b>Operating activities:</b>		
Net loss	\$ (7,981)	\$ (9,403)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	20,108	18,020
Non-cash compensation expense	453	163
Impairment loss on land parcel		2,396
Gain on sale of land parcel		(2,291)
Loss on early retirement of debt		149
Benefit for deferred income taxes	(4,995)	(5,887)
Changes in operating assets and liabilities		
Accounts receivable	1,512	4,334
Other assets	(2,213)	2,075
Accounts payable and accrued expenses	(3,513)	(4,942)
Deferred revenue and other liabilities	6,039	9,392
Net liabilities of discontinued operations	(29)	(467)
	<u>9,381</u>	<u>13,539</u>
<b>Investing activities:</b>		
Capital expenditures	(20,151)	(30,719)
Change in restricted cash	489	81
Net proceeds from the sale of land parcels		12,786
	<u>(19,662)</u>	<u>(17,852)</u>
<b>Financing activities:</b>		
Borrowings under credit facilities	24,000	37,000
Payments under long-term debt agreements and credit facility	(22,079)	(13,611)
Proceeds from exercise of stock options	4,567	
Repurchases of common stock		(6,174)
Repurchases of senior subordinated notes payable		(2,750)
	<u>6,488</u>	<u>14,465</u>
Cash provided by (used in) continuing operations	(3,764)	10,619
Cash used in discontinued operations	(29)	(467)
Cash and cash equivalents, at beginning of period	8,110	3,691
	<u>\$ 4,317</u>	<u>\$ 13,843</u>

See accompanying notes to consolidated financial statements.



**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 six months ended December 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 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 (loss) per share equals net income (loss) divided by the number of weighted average common shares outstanding. Diluted earnings (loss) per share includes the effects of common stock equivalents to the extent they are dilutive.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
	(In thousands)			
Basic weighted average shares outstanding	39,508	39,236	39,417	39,444
Stock options	1,008			
Diluted weighted average shares outstanding	40,516	39,236	39,417	39,444

Options to purchase shares of common stock totaling 7.0 million and 7.2 million were outstanding at December 31, 2003 and 2002, respectively, but were not included in the computation of loss per share for the associated periods because the effect would be antidilutive.

**4. 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 loss, 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 six months ended December 31, 2003 and \$163,000 (or \$100,000 net of benefit for income taxes) during the six months ended December 31, 2002. The following table summarizes the effect of accounting for stock



**Table of Contents****BOCA RESORTS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 six months ended December 31, 2003 and 2002 (000 s omitted):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Net income (loss) as reported	\$ 1,551	\$ (333)	\$ (7,981)	\$ (9,403)
Less: total stock based compensation determined under fair value based method for awards, net of related tax effects	(354)	(440)	(731)	(848)
Pro forma net income (loss)	\$ 1,197	\$ (773)	\$ (8,712)	\$ (10,251)
Net income (loss) per share basic and diluted, as reported	\$ .04	\$ (.01)	\$ (.20)	\$ (.24)
Net income (loss) per share basic and diluted, Pro forma	\$ .03	\$ (.02)	\$ (.22)	\$ (.26)

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 six months ended December 31, 2003 and 2002:

	2003	2002
Risk free interest rate	1.00%	1.50%
Expected lives	6 years	6 years
Expected volatility	30%	30%

**5. Shareholders Equity**

The accompanying table sets forth the components of the change in shareholders equity for the six months ended December 31, 2003 (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 loss						(7,981)	(7,981)
Exercise of stock options	477	5			4,562		4,567
Other stock option activity					1,243		1,243

Edgar Filing: BOCA RESORTS INC - Form 10-Q

Balance, December 31, 2003	39,512	\$ 395	255	\$ 3	\$465,353	\$52,127	\$517,878
----------------------------	--------	--------	-----	------	-----------	----------	-----------

**Table of Contents**

**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 second and third quarters of the fiscal year ended June 30 due to increased occupancy and room rates during the winter months. Historically, 16%, 25%, 35% and 24% of annual revenue has been derived during the first, second, third and fourth fiscal quarters, respectively.

**Events of September 11, 2001**

During the three-month period following the September 11, 2001 terrorist attacks on New York's World Trade Center towers and on the Pentagon, the Company's results of operations were adversely affected by travel disruption and short-term cancellation of group bookings at its properties. The Company's operating results continue to track slightly below pre-September 11, 2001 levels.

**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

**Table of Contents**

The accompanying table sets forth the operating results for the three and six months ended December 31, 2003 and 2002 (000 s omitted):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Leisure and recreation revenue	\$ 72,942	\$ 67,046	\$ 119,931	\$ 113,338
Operating expenses:				
Cost of leisure and recreation services	33,261	31,656	59,875	58,057
Selling, general and administrative expenses:				
Leisure and recreation	19,386	18,898	38,251	37,686
Corporate	2,313	2,390	4,337	3,715
Amortization and depreciation:				
Leisure and recreation	10,093	9,021	20,002	17,914
Corporate	53	53	106	106
Loss on early retirement of debt		149		149
Total operating expenses	65,106	62,167	122,571	117,627
Operating income (loss):				
Leisure and recreation	10,202	7,471	1,803	(319)
Corporate	(2,366)	(2,592)	(4,443)	(3,970)
Total operating income (loss)	7,836	4,879	(2,640)	(4,289)
Interest and other income	117	9	176	39
Interest expense	(5,430)	(5,429)	(10,512)	(11,040)
Income (loss) before benefit for income taxes	2,523	(541)	(12,976)	(15,290)
(Provision) benefit for income taxes	(972)	208	4,995	5,887
Net income (loss)	\$ 1,551	\$ (333)	\$ (7,981)	\$ (9,403)
Net cash provided by (used in) operating activities	\$ (3,627)	\$ 2,324	\$ 9,381	\$ 13,539
Net cash used in investing activities	\$ (8,215)	\$ (12,315)	\$ (19,662)	\$ (17,852)
Net cash provided by financing activities	\$ 8,961	\$ 14,167	\$ 6,488	\$ 14,465
EBITDA	\$ 17,982	\$ 14,265	\$ 17,921	\$ 14,043

The accompanying table reconciles EBITDA to net income (loss) for the three and six months ended December 31, 2003 and 2002 (000 s omitted):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002

Edgar Filing: BOCA RESORTS INC - Form 10-Q

EBITDA	\$ 17,982	\$ 14,265	\$ 17,921	\$ 14,043
Less: Depreciation	(10,146)	(9,074)	(20,108)	(18,020)
Less: Interest expense	(5,430)	(5,429)	(10,512)	(11,040)
Less: Non-recurring, non-cash compensation expense		(163)	(453)	(163)
Less: Loss on early retirement of debt		(149)		(149)
Plus: Interest income	117	9	176	39
Plus (less): (Provision) benefit for income taxes	(972)	208	4,995	5,887
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss)	\$ 1,551	\$ (333)	\$ (7,981)	\$ (9,403)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Table of Contents**

See Condensed Consolidated Statements of Cash Flow for a reconciliation of net income to net cash flow from operating activities for the six months ended December 31, 2003 and 2002.

The accompanying table sets forth additional operating data for the three and six months ended December 31, 2003 and 2002 (000's omitted, except operating statistics):

	Three Months Ended December 31,			Six Months Ended December 31,		
	2003	2002	% Change	2003	2002	% Change
<b>Revenue:</b>						
Room revenue	\$ 27,115	\$ 25,032	8%	\$ 43,413	\$ 41,239	5%
Non-room related revenue	45,827	42,014	9%	76,518	72,099	6%
Total leisure and recreation revenue	\$ 72,942	\$ 67,046	9%	\$ 119,931	\$ 113,338	6%
<b>Operating Statistics:</b>						
Available room nights	213,103	213,164		426,267	426,328	
Average daily rate	\$ 206.97	\$ 215.16	(4)%	\$ 170.98	\$ 176.68	(3)%
Occupancy	61.5%	54.6%	13%	59.6%	54.7%	9%
Room revenue per available room	\$ 127.24	\$ 117.43	8%	\$ 101.84	\$ 96.73	5%
Total leisure and recreation revenue per available room	\$ 342.27	\$ 314.53	9%	\$ 281.34	\$ 265.85	6%

**Leisure and Recreation Revenue**

Leisure and recreation revenue totaled \$72.9 million and \$67.0 million for the three months ended December 31, 2003 and 2002, respectively, and \$119.9 million and \$113.3 million for the six months ended December 31, 2003 and 2002, respectively. The increase in revenue for the three and six months ended December 31, 2003, compared to the three and six months ended December 31, 2002, resulted from increases in revenue at each of the Company's properties. Increases in revenue generally were derived through increased occupancy at the Company's resorts, partially offset by a decrease in average daily room rates. The decrease in average daily room rates was partially in response to the Company's automated yield management system, which seeks to maximize hotel revenue by recommending the optimal mix between occupancy and room rates.

Revenue increases at the Company's Naples properties during the three and six months ended December 31, 2003, versus the three and six months ended December 31, 2002, were primarily a result of room renovations being performed during the prior year period at both the Registry Resort and Edgewater Beach Hotel. Revenue increases at the Company's Fort Lauderdale properties during the three and six months ended December 31, 2003, compared to the three and six months ended December 31, 2002, were primarily the result of more group and leisure business. The Fort Lauderdale properties had over 3,850 more occupied room nights during the three months ended December 31, 2003, than during the three months ended December 31, 2002, and over 7,300 more occupied room nights during the six months ended December 31, 2003, than during the six months ended December 31, 2002. The increase in occupied room nights at the Company's Fort Lauderdale properties during the three and six months ended December 31, 2003, versus the three and six months ended December 31, 2002, was partially because the Bahia Mar Resort & Yachting Center was undergoing a marina renovation during the prior year period and because the Company continues to experience strong call center volume and web booking trends. The Company's Boca Raton Resort & Club continues to benefit from increases in non-room revenue as a result of property renovations and added amenities. In addition to a comprehensive guestroom renovation, capital enhancements over the past six years have included a new 112 water-view room marina hotel and marina slips (the Yacht Club), a 50,000 square foot spa complex, a golf clubhouse, additional retail and restaurant space, a 140,000 square foot conference center, a redesigned golf course and a tennis and fitness center.



## **Table of Contents**

### **Leisure and Recreation Operating Expenses**

Cost of leisure and recreation services totaled \$33.3 million, or 46% of revenue, for the three months ended December 31, 2003, compared to cost of leisure and recreation services of \$31.7 million, or 47% of revenue, for the three months ended December 31, 2002. Cost of leisure and recreation services totaled \$59.9 million, or 50% of revenue, for the six months ended December 31, 2003, compared to cost of leisure and recreation services of \$58.1 million, or 51% of revenue, for the six months ended December 31, 2002. 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 \$19.4 million, or 27% of revenue, for the three months ended December 31, 2003, compared to S,G&A of \$18.9 million, or 28% of revenue, for the three months ended December 31, 2002. Leisure and recreation S,G&A totaled \$38.3 million, or 32% of revenue, for the three months ended December 31, 2003, compared to S,G&A of \$37.7 million, or 33% of revenue, for the three months ended December 31, 2002. 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 slightly for the three and six months ended December 31, 2003, compared to the three and six months ended December 31, 2002, the Company continues to be adversely affected by an increase in energy and insurance costs, which were partially offset by a decrease in costs associated with golf course leases with third parties which recently expired.

Leisure and recreation depreciation expense totaled \$10.1 million and \$9.0 million for the three months ended December 31, 2003 and 2002, respectively, and \$20.0 million and \$17.9 million for the six months ended December 31, 2003 and 2002, respectively. The increase in depreciation expense for the three and six months ended December 31, 2003, compared to the three and six months ended December 31, 2002, was primarily the result of an increase in depreciation expense following the completion of room renovations at the Registry Resort (resulting in a \$1.1 million increase in depreciation expense for the six-month period) and Edgewater Beach Hotel (resulting in a \$91,000 increase in depreciation expense for the six-month period) and the marina renovation at the Bahia Mar Resort & Yachting Center (resulting in a \$305,000 increase in depreciation expense for the six-month period).

### **Leisure and Recreation Operating Income (Loss)**

Leisure and recreation operations reported operating income of \$10.2 million and \$7.5 million for the three months ended December 31, 2003 and 2002, respectively. Leisure and recreation operations reported operating income of \$1.8 million for the six months ended December 31, 2003, compared to an operating loss of \$319,000 for the six months ended December 31, 2002. The increase in operating results for the three and six months ended December 31, 2003, versus the three and six months ended December 31, 2002, was primarily due to an increase in revenue partially offset by higher depreciation expense.

### **Corporate General and Administrative Expenses**

Corporate general and administrative expenses totaled \$2.3 million and \$2.4 million for the three months ended December 31, 2003 and 2002, respectively, and \$4.3 million and \$3.7 million for the six months ended December 31, 2003 and 2002, respectively. The increase in corporate general and administrative expenses during the six months ended December 31, 2003, compared to the six months ended December 31, 2002, was primarily because the 2003 period included an increase in compensation expense associated with the modification in terms of certain stock option awards and an increase in costs associated with corporate governance issues pursuant to the Sarbanes-Oxley Act of 2002.

### **Interest Expense**

Interest expense totaled \$5.4 for both the three months ended December 31, 2003 and 2002 and \$10.5 million and \$11.0 million for the six months ended December 31, 2003 and 2002, respectively. The decrease in interest expense during the six months ended December 31, 2003, versus the six months ended

## **Table of Contents**

December 31, 2002, was the result of a \$207,000 increase in the amount of interest capitalized on projects under construction together with a \$254,000 decrease in interest expense resulting from lower average outstanding indebtedness during the 2003 period.

### **Provision/Benefit for Income Taxes**

The Company recorded provisions and benefits for income taxes equal to 38.5% of pretax income (loss) during the three and six months ended December 31, 2003 and 2002.

### **Net Income (Loss)**

Net income totaled \$1.6 million for the three months ended December 31, 2003, compared to a net loss of \$333,000 during the three months ended December 31, 2002. Net loss totaled \$8.0 million and \$9.4 million for the six months ended December 31, 2003 and 2002, respectively. The improvement in operating results for the three and six months ended December 31, 2003, versus the three and six months ended December 31, 2002, was primarily due to an increase in revenue partially offset by higher depreciation expense. See also explanations for such financial statement captions set forth above.

### **Liquidity and Capital Resources**

Unrestricted cash and cash equivalents decreased to \$4.3 million at December 31, 2003, 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 \$9.4 million and \$13.5 million for the six months ended December 31, 2003 and 2002, respectively. The decrease in net cash provided by operating activities for the six months ended December 31, 2003, compared to the six months ended December 31, 2002, is primarily due to the timing in collection of advance deposits. Because the lead-time in booking leisure and group business has become shorter-term in nature, advance deposits are collected closer to the customer's stay at the Company's resorts.

#### ***Net Cash Used In Investing Activities***

Net cash used in investing activities totaled \$19.7 million and \$17.9 million for the six months ended December 31, 2003 and 2002, 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 six-month period, it incurred \$10.5 million more in capital expenditures during the same period as more fully discussed below.

During the six months ended December 31, 2003 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 six-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.

During the six months ended December 31, 2002, 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 December 31, 2003 or from June 30, 2002 to December 31, 2002.

**Table of Contents**

***Net Cash Provided by Financing Activities***

Net cash provided by financing activities totaled \$6.5 million and \$14.5 million during the six months ended December 31, 2003 and 2002, 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 six months ended December 31, 2003, compared to the six months ended December 31, 2002, was the result of a decrease in capital expenditures 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 December 31, 2003, the Company had \$20.0 million outstanding under its revolving credit line (which matures on June 30, 2005) and had \$85.3 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 estimated to cost an additional \$5.0 million to \$7.0 million) and support on-going operations, including meeting debt service obligations as they come due.

As of December 31, 2003, 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, on or after April 15, 2004, 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 December 31, 2003 are discussed below.

***Inventory***

Inventory increased to \$7.7 million at December 31, 2003, from \$6.6 million at June 30, 2003. Changes in inventory levels result, in large part, due to the seasonality of the Company's business. The most significant increases in inventory were in retail clothing apparel at the Company's resort retail shops to stock for the ensuing peak operating season.

***Other Current Assets***

Other current assets increased to \$4.2 million at December 31, 2003, from \$3.2 million at June 30, 2003. The increase was due to the payment of the annual premium for the Company's directors and officers liability insurance partially offset by two months amortization of such premium.

***Accounts Payable and Accrued Expenses***

Accounts payable and accrued expenses decreased to \$26.8 million at December 31, 2003, from \$33.5 million at June 30, 2003. The decrease in accounts payable and accrued expenses was primarily due to the payment of income taxes in July 2003 and real estate taxes in November 2003.

## **Table of Contents**

### ***Current Portion of Deferred Revenue and Advance Deposits***

Current portion of deferred revenue and advance deposits increased to \$30.9 million at December 31, 2003, 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.

### ***Deferred Income Taxes***

Deferred income taxes decreased to \$28.5 million at December 31, 2003, from \$34.2 million at June 30, 2003. The decrease was the result of recording a \$5.0 million benefit for income taxes following the pretax loss for the December six-month period together with recording the tax deduction in the amount of \$790,000 associated with the exercise of employee stock options.

### ***Working Capital***

Current liabilities exceeded current assets by \$19.0 million and \$14.8 million at December 31, 2003 and June 30, 2003, respectively. Current liabilities exceeded current assets at both December 31, 2003 and June 30, 2003 primarily because the Company repurchased \$149.9 million principal amount of senior subordinated notes over the past three years and such notes would have otherwise matured in April 2009. The repurchase of the notes resulted in, among other things, a decrease in the Company average cost of borrowing. However, the ratio of current liabilities to current assets is not indicative of a lack of liquidity as the Company maintains a revolving credit line that represents an additional and immediate potential source of liquidity. See *Capital Resources* .

## **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 December 31, 2003, 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

**Table of Contents**

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 December 31, 2003 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.

**Table of Contents****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**

At the Annual Meeting of Stockholders held on November 7, 2003, the shareholders voted to elect the directors named in the proxy materials dated September 30, 2003 and voted to ratify the selection of Ernst & Young LLP as the Company's independent public accountants for the year ending June 30, 2004. The results of the voting were as follows:

	<u>For</u>	<u>Against</u>	<u>Withheld</u>	<u>Abstain</u>	<u>Broker Non- Votes</u>	<u>Total(1)</u>
<b><i>Election of Directors:</i></b>						
Steven R. Berrard	2,585,075,526		30,642			2,585,106,168
Dennis J. Callaghan	2,585,007,044		99,124			2,585,106,168
Michael S. Egan	2,585,078,313		27,855			2,585,106,168
Harris W. Hudson	2,585,074,619		31,549			2,585,106,168
H. Wayne Huizenga	2,584,997,748		108,420			2,585,106,168
George D. Johnson, Jr.	2,585,078,323		27,845			2,585,106,168
Henry Latimer	2,583,151,382		1,954,786			2,585,106,168
Peter H. Roberts	2,585,078,744		27,424			2,585,106,168
Richard C. Rochon	22,061,150		2,563,045,018			2,585,106,168
<b><i>Ratify Selection of Ernst &amp; Young LLP</i></b>	2,585,099,004	3,856		3,308		2,585,106,168

(1) Each share of Class A Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to 10,000 votes.

**Item 5. Other Information**

None.

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

(a) Exhibits

<u>Exhibits</u>	<u>Description Of Exhibit</u>
-----------------	-------------------------------

Edgar Filing: BOCA RESORTS INC - Form 10-Q

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.

**Table of Contents**

**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: February 3, 2004