

BOCA RESORTS INC  
Form 10-Q  
February 03, 2003

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, 2002

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)

<b>Delaware</b> (State of Incorporation)	<b>65-0676005</b> (I.R.S. Employer Identification No.)
<b>501 East Camino Real</b> <b>Boca Raton, Florida</b> (Address of Principal Executive Offices)	<b>33432</b> (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 February 3, 2003, there were 38,947,079 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.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## BOCA RESORTS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)  
(Unaudited)

	December 31, 2002	June 30, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,843	\$ 3,691
Restricted cash	640	721
Accounts receivable, net	17,257	21,591
Inventory	6,995	6,433
Current portion of Premier Club notes receivable	3,558	3,382
Other current assets	3,430	3,223
	<hr/>	<hr/>
Total current assets	45,723	39,041
Property and equipment, net	821,067	822,630
Intangible assets, net	34,518	34,518
Long-term portion of Premier Club notes receivable	7,121	7,410
Other assets	10,598	13,137
	<hr/>	<hr/>
Total assets	\$919,027	\$916,736
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 24,250	\$ 30,222
Current portion of deferred revenue and advance deposits	32,565	22,355
Net liabilities of discontinued operations	1,969	2,436
Current portion of credit line and note payable	42,409	227
	<hr/>	<hr/>
Total current liabilities	101,193	55,240
Credit line and note payable		18,793
Deferred revenue, net of current portion	38,618	38,073
Other liabilities	9,561	9,695
Deferred income taxes	24,165	30,052
Senior subordinated notes payable	190,145	192,895
Premier Club refundable membership fees	54,487	55,716
Commitments and contingencies		
Shareholders' equity:		
Class A Common Stock, \$.01 par value, 100,000,000 shares authorized and 38,947,079 and 39,538,479 shares issued and outstanding at December 31, 2002 and June 30, 2002, respectively	389	395
Class B Common Stock, \$.01 par value, 10,000,000 shares authorized and 255,000 shares issued and outstanding at June 30, 2002 and 2001.	3	3
Contributed capital	458,560	464,565

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Retained earnings	41,906	51,309
	<u>          </u>	<u>          </u>
Total shareholders' equity	500,858	516,272
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$919,027	\$916,736
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

## BOCA RESORTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	2002	2001
	<u>          </u>	<u>          </u>
Leisure and recreation revenue	\$67,046	\$57,782
Operating expenses:		
Cost of leisure and recreation services	31,656	27,892
Selling, general and administrative expenses	21,288	20,848
Depreciation	9,074	8,518
Loss on early retirement of debt	149	198
	<u>          </u>	<u>          </u>
Total operating expenses	62,167	57,456
	<u>          </u>	<u>          </u>
Operating income	4,879	326
Interest and other income	9	267
Interest expense	(5,429)	(5,158)
	<u>          </u>	<u>          </u>
Loss before income taxes	(541)	(4,565)
Benefit for income taxes	208	1,826
	<u>          </u>	<u>          </u>
Net loss	\$ (333)	\$ (2,739)
	<u>          </u>	<u>          </u>
Net loss per share   basic and diluted	\$ (0.01)	\$ (0.07)
	<u>          </u>	<u>          </u>
Weighted average shares used in computing net loss per share basic and diluted	39,236	39,702
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

## BOCA RESORTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Six Months Ended December 31  
(In thousands, except per share data)  
(Unaudited)

	2002	2001
	<u>          </u>	<u>          </u>
Leisure and recreation revenue	\$ 113,338	\$ 97,302
Operating expenses:		
Cost of leisure and recreation services	58,057	51,938
Selling, general and administrative expenses	41,401	40,148
Depreciation	18,020	16,228
Loss on early retirement of debt	149	1,613
	<u>          </u>	<u>          </u>
Total operating expenses	117,627	109,927
	<u>          </u>	<u>          </u>
Operating loss	(4,289)	(12,625)
Interest and other income	39	984
Interest expense	(11,040)	(12,112)
	<u>          </u>	<u>          </u>
Loss from continuing operations before income taxes	(15,290)	(23,753)
Benefit for income taxes	5,887	9,501
	<u>          </u>	<u>          </u>
Loss from continuing operations	(9,403)	(14,252)
Gain on disposition of discontinued operations, net of income taxes		23,728
	<u>          </u>	<u>          </u>
Net income (loss)	\$ (9,403)	\$ 9,476
	<u>          </u>	<u>          </u>
Loss per share from continuing operations	\$ (0.24)	\$ (0.36)
Income per share from discontinued operations		0.60
	<u>          </u>	<u>          </u>
Net income (loss) per share basic and diluted	\$ (0.24)	\$ 0.24
	<u>          </u>	<u>          </u>
Weighted average shares used in computing net income (loss) per share basic and diluted	39,444	39,821
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

## BOCA RESORTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended December 31

(In thousands)

(Unaudited)

	2002	2001
Operating activities:		
Net income (loss)	\$ (9,403)	\$ 9,476
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and depreciation	18,020	16,228
Benefit for deferred income taxes	(5,887)	(9,501)
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	163	
Gain on disposition of discontinued operations, net of income taxes		(23,728)
Changes in operating assets and liabilities		
Accounts receivable	4,334	3,933
Other assets	2,075	890
Accounts payable and accrued expenses	(4,942)	(4,231)
Deferred revenue and other liabilities	9,392	14,018
Net liabilities of discontinued operations	(467)	
Net cash provided by operating activities	13,539	8,698
Investing activities:		
Net proceeds from the sale of land parcels	12,786	
Net proceeds from the disposition of discontinued operations		72,380
Capital expenditures	(30,719)	(50,809)
Change in restricted cash	81	(125)
Net cash provided by (used in) investing activities	(17,852)	21,446
Financing activities:		
Borrowings under credit facility	37,000	24,500
Payments under long-term debt agreements and credit facility	(13,611)	(119)
Repurchases of senior subordinated notes payable	(2,750)	(57,000)
Repurchases of common stock	(6,174)	(2,305)
Proceeds from exercise of stock options		530
Net cash provided by (used in) in financing activities	14,465	(34,394)
Cash provided by (used in) continuing operations	10,619	(76,630)
Cash provided by (used in) discontinued operations	(467)	72,380
Cash and cash equivalents, at beginning of period	3,691	9,909
Cash and cash equivalents, at end of period	\$ 13,843	\$ 5,659

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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 six months ended December 31, 2002 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 Hotel 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.

The following options to purchase shares of common stock were outstanding at the end of the periods presented, but were not included in the computation of earnings per share because the Company reported a loss from continuing operations during the periods and, therefore, the effect would be antidilutive.

	Six Months Ended December 31,	
	2002	2001
	(In Thousands)	
Number of shares covered by options	7,218	6,631

**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 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 discontin-



**BOCA RESORTS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ued 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 December 31, 2002. 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.

**5. Comprehensive Income (Loss)**

Comprehensive income (loss) was the same as net income (loss) for the three and six months ended December 31, 2002 and 2001.

**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 difference between the carrying value of this land parcel and the net proceeds. The impairment loss is included in interest and other income in the accompanying Unaudited Condensed Consolidated Statements of Operations.

**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, 2002, including the disclosure relating to critical accounting policies in Management's Discussion and Analysis.

**Business Strategy**

The Company's current 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 Company's business operations are generally seasonal. The Company's resorts historically experience greater revenue, costs and earnings in the third quarter of the fiscal year ended June 30 due to increased occupancy and room rates during the winter months. Historically, approximately 16%, 25%, 35% and 24% of annual revenue has been derived during the first, second, third and fourth fiscal quarters, respectively.

**Management Outlook**

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 resorts have experienced an increase in demand since the beginning of the 2002 calendar year, however, the Company continues to experience an overall slower recovery than expected because of the difficult economic conditions.

The weakness in the economy has made it more difficult for management to predict future operating results than in the past. Even though the Company has a solid base of large group business already on the books, reservation patterns have become increasingly short-term as they relate to the Company's leisure customer and small group market. The weaker economy has also made it more difficult to achieve originally anticipated levels of ancillary spending. To remain competitive and to combat the short-term uncertainty, the Company has introduced various value-added programs targeting both its leisure and group customers. Because of these factors, management expects that its operating results for the remainder of fiscal 2003 will be lower than originally anticipated, but higher than the comparable prior year periods.

The accompanying table sets forth the operating results for the three and six months ended December 31 (expressed in 000's):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Leisure and recreation revenue	\$67,046	\$57,782	\$113,338	\$ 97,302
Operating expenses:				
Cost of leisure and recreation services	31,656	27,892	58,057	51,938
Selling, general and administrative expenses:				
Leisure and recreation	18,898	18,552	37,686	36,313
Corporate	2,390	2,296	3,715	3,835
Depreciation:				
Leisure and recreation	9,021	8,457	17,914	16,100
Corporate	53	61	106	128
Loss on early retirement of debt	149	198	149	1,613
<b>Total operating expenses</b>	<b>62,167</b>	<b>57,456</b>	<b>117,627</b>	<b>109,927</b>



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	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
<b>Operating income (loss):</b>				
Leisure and recreation	7,471	2,881	(319)	(7,049)
Corporate	(2,592)	(2,555)	(3,970)	(5,576)
<b>Total operating income (loss)</b>	<b>4,879</b>	<b>326</b>	<b>(4,289)</b>	<b>(12,625)</b>
Interest and other income	9	267	39	984
Interest expense	(5,429)	(5,158)	(11,040)	(12,112)
<b>Loss from continuing operations before income taxes</b>	<b>(541)</b>	<b>(4,565)</b>	<b>(15,290)</b>	<b>(23,753)</b>
Benefit for income taxes	208	1,826	5,887	9,501
<b>Loss from continuing operations</b>	<b>(333)</b>	<b>(2,739)</b>	<b>(9,403)</b>	<b>(14,252)</b>
Gain on disposition of discontinued operations, net of income taxes				23,728
<b>Net income (loss)</b>	<b>\$ (333)</b>	<b>\$ (2,739)</b>	<b>\$ (9,403)</b>	<b>\$ 9,476</b>
<b>Net cash provided by operating activities</b>	<b>\$ 2,324</b>	<b>\$ 2,044</b>	<b>\$ 13,539</b>	<b>\$ 8,698</b>
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (12,315)</b>	<b>\$ (34,369)</b>	<b>\$ (17,852)</b>	<b>\$ 21,446</b>
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 14,167</b>	<b>\$ 15,681</b>	<b>\$ 14,465</b>	<b>\$ (34,394)</b>
<b>EBITDA (EBITDA loss):</b>				
Leisure and recreation	\$ 16,492	\$ 11,338	\$ 17,596	\$ 9,051
Corporate	(2,390)	(2,296)	(3,715)	(3,835)
<b>Total</b>	<b>\$ 14,102</b>	<b>\$ 9,042</b>	<b>\$ 13,881</b>	<b>\$ 5,216</b>
<b>Adjusted EBITDA (Adjusted EBITDA loss):</b>				
Leisure and recreation	\$ 16,678	\$ 13,353	\$ 17,636	\$ 11,649
Corporate	(2,390)	(2,296)	(3,715)	(3,835)
<b>Total</b>	<b>\$ 14,288</b>	<b>\$ 11,057</b>	<b>\$ 13,921</b>	<b>\$ 7,814</b>

The accompanying table sets forth additional operating data for the three and six months ended December 31 (expressed in 000 s except operating statistics):

	Three Months Ended December 31,			Six Months Ended December 31,		
	2002	2001	% Chg.	2002	2001	% Chg.
<b>Revenue:</b>						
Room revenue	\$ 25,032	\$ 21,168	18%	\$ 41,239	\$ 35,041	18%
Non-room related revenue	42,014	36,614	15%	72,099	62,261	16%

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Total leisure and recreation revenue	\$ 67,046	\$ 57,782	16%	\$ 113,338	\$ 97,302	17%
Operating Statistics:						
Available room nights	213,164	205,988	3%	426,328	411,976	3%
Occupancy	54.6%	51.4%	6%	54.7%	51.3%	7%
Average daily rate	\$ 215.16	\$ 200.07	8%	\$ 176.68	\$ 165.84	7%
Room revenue per available room	\$ 117.43	\$ 102.76	14%	\$ 96.73	\$ 85.06	14%
Total leisure and recreation revenue per available room	\$ 314.53	\$ 280.52	12%	\$ 265.85	\$ 236.19	13%

## Leisure and Recreation Revenue

Leisure and recreation revenue totaled \$67.0 million and \$57.8 million for the three months ended December 31, 2002 and 2001, respectively, and \$113.3 million and \$97.3 million for the six months ended December 31, 2002 and 2001, respectively.

The \$9.2 million increase in revenue for the three months ended December 31, 2002, compared to the three months ended December 31, 2001, was primarily the result of stronger performances at the Company's Boca Raton and Fort Lauderdale properties which yielded period over period advances in room revenue per available room. Business at the Company's Naples properties was disrupted by comprehensive room renovations at both the Registry Resort and Edgewater Beach Hotel during the recently concluded three-month period. Renovation projects at both properties were completed in January 2003. Despite the disruptions, aggregate resort portfolio occupancy increased to 54.6% for the three months ended December 31, 2002, compared to 51.4% for the comparable prior year period, while the average daily rate charged at the Company's resorts increased to \$215.16 for the recently concluded three-month period, up from \$200.07 for the prior year quarter. The increase in occupancy also contributed to an increase in certain ancillary non-room revenue from sources such as food and beverage sales, retail sales and golf revenue for the three months ended December 31, 2002, as compared to the three months ended December 31, 2001. The increase in leisure and recreation revenue did not correspond to the increase in total revenue per available room for the periods presented due to an increase in the number of available rooms following the completion of the new marina wing (the Yacht Club) featuring 112 water-view rooms, additional meeting space and marina slips at the Boca Raton Resort & Club. Some of the quarter over quarter increase in revenue was attributable to the poor performance in the prior year's quarter, subsequent to the September 11, 2001 terrorist attacks.

The \$16.0 million increase in revenue for the six months ended December 31, 2002, compared to the six months ended December 31, 2001, was primarily the result of a strong financial performance at the Boca Raton Resort & Club which yielded period over period advances in occupancy, average daily rate and ancillary (non-room) customer spending. Aggregate resort portfolio occupancy increased to 54.7% for the six months ended December 31, 2002, compared to 51.3% for the comparable prior year period, while the average daily rate charged at the Company's resorts increased to \$176.68 for the recently concluded six-month period, up from \$165.84 for the comparable prior year period.

## Leisure and Recreation Operating Expenses

Cost of leisure and recreation services totaled \$31.7 million, or 47% of revenue, for the three months ended December 31, 2002, compared to cost of leisure and recreation services of \$27.9 million, or 48% of revenue, for the three months ended December 31, 2001. Cost of leisure and recreation services totaled \$58.1 million, or 51% of revenue, for the six months ended December 31, 2002, compared to cost of leisure and recreation services of \$51.9 million, or 53% of revenue, for the six months ended December 31, 2001. 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 \$18.9 million, or 28% of revenue, for the three months ended December 31, 2002, compared to S,G&A of \$18.6 million, or 32% of revenue, for the three months ended December 31, 2001. Leisure and recreation S,G&A totaled \$37.7 million, or 33% of revenue, for the six months ended December 31, 2002, compared to S,G&A of \$36.3 million, or 37% of revenue, for the six months ended December 31, 2001. 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.

Cost of leisure and recreation services and leisure and recreation S,G&A as a percent of revenue for the three and six months ended December 31, 2001 was disproportionately high due to a decrease in revenue following the September 11, 2001 terrorist attacks.

Leisure and recreation depreciation expense totaled \$9.0 million and \$8.5 million for the three months ended December 31, 2002 and 2001, respectively, and \$17.9 million and \$16.1 million for the six months



ended December 31, 2002 and 2001, respectively. The increase in depreciation expense for the three and six months ended December 31, 2002, compared to the three and six months ended December 31, 2001 was primarily the result of an increase in depreciation expense following the completion of several capital projects at the Boca Raton Resort & Club, including the new Yacht Club, a new state-of-the-art 50,000 square foot world-class spa complex and a new golf clubhouse and casual restaurant.

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

Leisure and recreation operations reported operating income of \$7.5 million and \$2.9 million for the three months ended December 31, 2002 and 2001, respectively, and an operating loss of \$319,000 and \$7.0 million for the six months ended December 31, 2002 and 2001, respectively. The improvement in operating results for the three and six months ended December 31, 2002, compared to the three and six months ended December 31, 2001, was primarily because the prior year figures were adversely impacted by a decrease in revenue and corresponding earnings following the September 11, 2001 terrorist attacks.

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

Corporate general and administrative expenses totaled \$2.4 million and \$2.3 million for the three months ended December 31, 2002 and 2001, respectively, and \$3.7 million and \$3.8 million for the six months ended December 31, 2002 and 2001, respectively. Pursuant to the management services agreement, Huizenga Holdings, Inc., a corporation whose sole shareholder is the Company's Chairman, provides certain administrative, financing, tax, investor relations and strategy related services to the Company. For the fiscal year ending on June 30, 2003, the management fee paid to Huizenga Holdings, Inc. has been limited to the lesser of 1% of revenue, or \$1.9 million. Prior to fiscal 2003, the agreement provided for a management fee equal to 1% of total revenue. Because revenue for the three and six months ended December 31, 2001 was adversely impacted by the terrorist attacks of September 11, 2001 (thereby effectively reducing the management fee paid immediately following the September 11, 2001 attacks), the decreases in the management fee for the three and six-month periods was not material.

#### **Loss on Early Retirement of Debt**

The Company recorded a loss of \$149,000 and \$198,000 relating to the repurchase of its 9.875% senior subordinated notes during the three months ended December 31, 2002 and 2001, respectively, and \$149,000 and \$1.6 million during the six months ended December 31, 2002 and 2001, respectively. The loss represents the non-cash charge-off of a pro rata portion of the debt issuance costs previously capitalized when the notes were issued, together with the premium paid to acquire the notes.

#### **Interest and Other Income**

Interest and other income totaled \$9,000 and \$267,000 for the three months ended December 31, 2002 and 2001, respectively, and \$39,000 and \$984,000 for the six months ended December 31, 2002 and 2001, respectively. The decrease in interest and other income for the three and six months ended December 31, 2002 compared to the three and six months ended December 31, 2001 was primarily because the Company invested a portion of the proceeds from the sale of the entertainment and sports business in time deposit accounts during the prior year periods until such proceeds were subsequently used to repurchase a portion of the Company's outstanding 9.875% senior subordinated notes. In addition, during the six months ended December 31, 2002, interest and other income included a \$2.3 million gain on the sale of a land parcel located in Naples, Florida, as well as, an impairment loss of \$2.4 million to reflect the difference between the carrying value of a land parcel located in Plantation, Florida and the net proceeds. See Note 6 to the Unaudited Condensed Consolidated Financial Statements.

#### **Interest Expense**

Interest expense totaled \$5.4 million and \$5.2 million for the three months ended December 31, 2002 and 2001, respectively, and \$11.0 million and \$12.1 million for the six months ended December 31, 2002 and 2001,

respectively. The change in interest expense during the three months ended December 31, 2002 and 2001 was primarily the result of fluctuations in the amount of capitalized interest on projects under construction. Interest capitalized during the three months ended December 31, 2002 and 2001 totaled \$364,000 and \$1.0 million, respectively. Fluctuations in the amount of interest capitalized on projects under construction during the six-month periods presented were nearly offset by the fluctuations in interest expense resulting from changes in the average outstanding indebtedness during the periods.

#### **Benefit for Income Taxes**

The Company recorded a benefit for income taxes totaling \$208,000, or 38.5% of pretax loss from continuing operations, and \$1.8 million, or 40% of pretax loss from continuing operations, for the three months ended December 31, 2002 and 2001, respectively. The Company recorded a benefit for income taxes totaling \$5.9 million, or 38.5% of pretax loss from continuing operations, and \$9.5 million, or 40% of pretax loss from continuing operations, for the six months ended December 31, 2002 and 2001, respectively. The decrease in the Company's effective income tax rate for the three and six months ended December 31, 2002, compared to the three and six months ended December 31, 2001, was due to a decrease in permanent differences.

#### **EBITDA/Adjusted EBITDA**

EBITDA represents earnings (losses) before extraordinary and non-recurring items, interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA plus the amount of net membership fees deferred during the periods presented. EBITDA and Adjusted EBITDA (see below) are used by management and certain investors as indicators of the Company's historical ability to service debt, to sustain potential future increases in debt and to satisfy capital requirements. However, neither EBITDA, nor Adjusted EBITDA, is intended to represent cash flows for the period. In addition, they have not been presented as alternatives to either (a) operating income (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 are thus susceptible to varying calculations. EBITDA as presented may not be comparable to other similarly titled measures of other companies.

EBITDA totaled \$14.1 million and \$9.0 million for the three months ended December 31, 2002 and 2001, respectively, and \$13.9 million and \$5.2 million for the six months ended December 31, 2002 and 2001, respectively. The improvement in EBITDA for the three and six months ended December 31, 2002, compared to the three and six months ended December 31, 2001, was primarily because the prior year figures were adversely impacted by a decrease in revenue and corresponding earnings following the September 11, 2001 terrorist attacks.

Adjusted EBITDA represents EBITDA plus the amount of net membership fees. Adjusted EBITDA totaled \$14.3 million and \$11.1 million for the three months ended December 31, 2002 and 2001, respectively, and \$13.9 million and \$7.8 million for the six months ended December 31, 2002 and 2001, respectively.

#### **Liquidity and Capital Resources**

Unrestricted cash and cash equivalents increased to \$13.8 million at December 31, 2002, from \$3.7 million at June 30, 2002. The major components of the change are discussed below.

##### *Net Cash Provided by Operating Activities*

Net cash provided by operating activities totaled \$13.5 million and \$8.7 million for the six months ended December 31, 2002 and 2001, respectively. The increase in net cash provided by operating activities for the six months ended December 31, 2002, compared to the six months ended December 31, 2001, was because during the prior year six-month period the Company received significantly less cash from its business than during the current year period due to a decline in earnings and corresponding net cash flow following the September 11, 2001 terrorist attacks.

*Net Cash Provided by (Used In) Investing Activities*

Net cash used in investing activities totaled \$17.9 million for the six months ended December 31, 2002, compared to net cash provided by investing activities of \$21.4 million for the six months ended December 31, 2001. The change was partially because the Company received \$72.4 million from the sale of the entertainment and sports business during the prior year period, while during the six months ended December 31, 2002, the Company received \$12.8 million from the sale of land parcels located in Naples, Florida and Plantation, Florida.

Additionally, capital expenditures totaled \$30.7 million and \$50.8 million for the six months ended December 31, 2002 and 2001, respectively. During the six months ended December 31, 2002, capital projects included a comprehensive room renovation at the Registry Resort covering 395 guestrooms, which includes all new furnishings and new five fixture bathrooms. The Company also renovated approximately 60 guest suites at the Edgewater Beach Hotel and began work on a marina renovation at the Bahia Mar Resort and Yachting Center, which includes the reconfiguration of the existing boat slips. This extensive marina renovation will result in a state-of-the art yachting center with 242 reconfigured boat slips, sized to accommodate larger yachts ranging from 80 feet to 200+ feet, without reducing the linear rentable feet. During the six months ended December 31, 2001, the Company continued construction on various projects at the Boca Raton Resort & Club including the new Yacht Club, as well as, a new 50,000 square foot state-of-the-art spa complex and a new golf clubhouse with casual restaurant.

The change in restricted cash was not material from June 30, 2002 to December 31, 2002 or from June 30, 2001 to December 31, 2001.

*Cash Provided by (Used in) Financing Activities*

Net cash provided by financing activities totaled \$14.5 million for the six months ended December 31, 2002, compared to net cash used in financing activities of \$34.4 million for the six months ended December 31, 2001. Financing activities for the periods presented primarily includes borrowings, net of repayments, under the Company's revolving credit facility, as well as, repurchases of the Company's common stock and 9.875% senior subordinated notes. The change in net cash flow for the periods presented was primarily because the Company repurchased \$2.8 million in senior subordinated notes during the six months ended December 31, 2002, compared to \$57.0 million in senior subordinated notes during the six months ended December 31, 2001.

*Capital Resources*

The Company's capital resources are provided from both internal and external sources. The primary capital resources from internal operations include (1) room rentals, food and beverage sales, retail sales, golf and tennis revenue, spa revenue, marina and conference services at the resorts and (2) Premier Club memberships. The primary external sources of liquidity have been the issuance of debt securities and borrowing under term loans and credit lines.

As of December 31, 2002, the Company had \$42.2 million outstanding under its revolving credit line (which matures on October 31, 2003) and had \$59.8 million in immediate availability. While management expects to renew/replace its existing revolving credit line prior to maturity, no assurances can be given that management will be successful in doing so. Nonetheless, 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 fiscal 2003 and support on-going operations, including meeting debt service obligations as they come due.

## Financial Condition

Significant changes in balance sheet data from June 30, 2002 to December 31, 2002 are discussed below.

### *Accounts Receivable*

Accounts receivable decreased to \$17.3 million at December 31, 2002, from \$21.6 million at June 30, 2002. It is customary for the Company's trade receivables to decrease during certain periods of the year as a result of the seasonality of its business. In addition, the Registry Resort completed a comprehensive room renovation, which has led to disruption in business during the six months ended December 31, 2002, as well as, a corresponding decrease in accounts receivable.

### *Other Assets*

Other assets decreased to \$10.6 million at December 31, 2002, from \$13.1 million at June 30, 2002. The decrease in other assets is partially the result of amortizing debt issuance costs, which are included in other assets in the accompanying Condensed Consolidated Balance Sheets. In addition, a receivable was liquidated that arose in connection with the Company incurring expenditures as a result of construction on a public bridge that adversely affected access, among other things, to one of the Company's resort properties.

### *Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses decreased to \$24.3 million at December 31, 2002, from \$30.2 million at June 30, 2002. The decrease was primarily the result of the payment of annual real estate taxes on the Company's resort properties as well as a \$2.9 million decrease in accrued legal settlements as certain litigation retained in connection with the Arizona Biltmore Resort & Spa was settled and paid in July 2002.

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

Current portion of deferred revenue and advance deposits increased to \$32.6 million at December 31, 2002, from \$22.4 million at June 30, 2002. The increase is substantially related to the collection of annual Premier Club dues at the Boca Raton Resort & Club. The annual dues are being recognized as revenue ratably over the membership year, which commenced on October 1.

### *Current Portion of Credit Line and Note Payable*

Current portion of credit line and note payable increased to \$42.4 million at December 31, 2002, from \$227,000 at June 30, 2002. The increase is because the Company had made additional borrowings under this credit facility and because the facility expires in October 2003, and accordingly, the outstanding balance has moved from a long-term obligation to a current obligation.

### *Working Capital*

Current liabilities exceeded current assets by \$55.5 million and \$16.2 million at December 31, 2002 and June 30, 2002, respectively. 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, 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***

Within the 90 days prior to the date of this report, 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. Based upon that evaluation, the chairman and chief financial officer concluded that the Company's disclosure controls and procedures are 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 Securities and Exchange Commission filings.

There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## PART II OTHER INFORMATION

**Item 1. Legal Proceedings**

The Company is not involved in any material legal proceedings. However, the Company may from time to time become a party to legal proceedings arising in the ordinary course of business, which are incidental to the business. While the results of proceedings which arose in the normal course of business cannot be predicted with certainty, management believes that losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated results of operations, consolidated cash flows or consolidated financial position.

**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 19, 2002, the shareholders voted to elect the directors named in the proxy materials dated October 3, 2002, voted to increase by 1,500,000 shares the number of shares of Class A Common Stock issuance upon the exercise of stock options granted or to be granted under the Company's stock option plan and voted to ratify the selection of Ernst & Young LLP as the Company's independent public accountants for the year ending June 30, 2003. The results of the voting were as follows:

	For	Withheld	Against	Abstain	Total(1)
<b>Election of Directors:</b>					
Steven R. Berrard	2,579,380,898	3,755,288			2,583,136,186
Dennis J. Callaghan	2,579,843,619	3,292,567			2,583,136,186
Michael S. Egan	2,579,774,686	3,361,500			2,583,136,186
Harris W. Hudson	2,579,843,162	3,293,024			2,583,136,186
H. Wayne Huizenga	2,579,843,169	3,293,017			2,583,136,186
George D. Johnson, Jr.	2,579,843,364	3,292,822			2,583,136,186
Henry Latimer	2,579,382,298	3,753,888			2,583,136,186
Peter H. Roberts	2,579,383,098	3,753,088			2,583,136,186
Richard C. Rochon	2,579,843,079	3,293,107			2,583,136,186
<b>Amend Stock Option Plan</b>	2,577,024,768		6,096,444	14,974	2,583,136,186
<b>Ratify Selection of Ernst &amp; Young LLP</b>	2,582,452,369		682,238	1,579	2,583,136,186

(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*

<b>Exhibits</b>	<b>Description Of Exhibit</b>
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002.

*(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.

Date: February 3, 2003

By: /s/ WAYNE MOOR

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

By: /s/ MARYJO FINOCCHIARO

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



**SECTION 302 CERTIFICATIONS**

I, H. Wayne Huizenga, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boca Resorts, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 3, 2003

/s/ H. WAYNE HUIZENGA

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Chairman of the Board  
(Principal Executive Officer)

**SECTION 302 CERTIFICATIONS CONTINUED**

I, Wayne Moor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boca Resorts, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 3, 2003

/s/ WAYNE MOOR

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Senior Vice President, Treasurer and Chief  
Financial Officer