LAS VEGAS SANDS CORP
Form 10-Q
May 10, 2006

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UNITED STATES SECURITIES & EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition period from __________ to __________

Commission File Number 001-32373

LAS VEGAS SANDS CORP.
(Exact name of registration as specified in its charter)

Nevada	**27-0099920**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3355 Las Vegas Boulevard South Las Vegas, Nevada	**89109**
(Address of principal executive offices)	(Zip Code)

(702) 414-1000

(Registrant s telephone number, including area code)

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. þ Yes No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the Registrant s classes of common stock, as of May 1, 2006.

LAS VEGAS SANDS CORP.

Class	Outstanding at May 1, 2006
Common Stock ($0.001 par value)	354,317,234 shares

LAS VEGAS SANDS CORP.

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FINANCIAL INFORMATION

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ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 317,277	$ 456,846
Restricted cash and cash equivalents	113,221	71,717
Accounts receivable, net	108,450	84,778
Inventories	10,645	9,967
Deferred income taxes	10,363	7,946
Prepaid expenses and other	18,175	13,452
Total current assets	578,131	644,706
Property and equipment, net	2,887,413	2,600,468
Deferred offering costs, net	28,956	30,973
Restricted cash and cash equivalents	577,425	571,143
Deferred income taxes	2,064	11,332
Other assets, net	23,345	21,117
	$ 4,097,334	$ 3,879,739
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 44,259	$ 34,803
Construction payables	182,750	163,932
Accrued interest payable	3,277	7,918
Other accrued liabilities	249,953	246,390
Income taxes payable	8,200	
Current maturities of long-term debt	7,490	7,325
Total current liabilities	495,929	460,368
Other long-term liabilities	11,775	9,804
Deferred gain on sale of The Grand Canal Shops mall	67,263	68,129
Deferred rent from The Grand Canal Shops mall transaction	105,693	105,999
Long-term debt	1,679,846	1,625,901

	2,360,506	2,270,201
Commitments and contingencies (Note 6)		
Stockholders equity:		
Common stock, $.001 par value, 1,000,000,000 shares authorized, 354,317,234 and 354,179,580 shares issued and outstanding	354	354
Capital in excess of par value	970,305	964,660
Deferred compensation		(150)
Accumulated other comprehensive income	1,438	1,726
Retained earnings	764,731	642,948
	1,736,828	1,609,538
Total liabilities and stockholders equity	$ 4,097,334	$ 3,879,739

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues:		
Casino	$ 375,382	$ 265,786
Rooms	91,138	86,077
Food and beverage	51,816	43,489
Convention, retail and other	35,005	28,454
	553,341	423,806
Less-promotional allowances	(22,977)	(20,012)
Net revenues	530,364	403,794
Operating expenses:		
Casino	205,344	131,953
Rooms	21,753	21,115
Food and beverage	24,057	20,965
Convention, retail and other	16,395	14,376
Provision for doubtful accounts	4,989	3,386
General and administrative	54,812	45,773
Corporate expense	12,954	10,882
Rental expense	3,707	3,705
Pre-opening expense	2,219	
Development expense	9,168	5,175
Depreciation and amortization	25,005	19,965
Loss on disposal of assets	1,081	1,163
	381,484	278,458
Operating income	148,880	125,336
Other income (expense):		
Interest income	10,214	7,394
Interest expense, net of amounts capitalized	(21,415)	(27,083)
Other income	164	
Loss on early retirement of debt		(132,834)
Income (loss) before income taxes	137,843	(27,187)

Benefit (provision) for income taxes		(16,060)		34,299
Net income	$	121,783	$	7,112
Basic earnings per share	$	0.34	$	0.02
Diluted earnings per share	$	0.34	$	0.02
Weighted average shares outstanding:				
Basic		354,199,253		354,160,692
Diluted		354,592,597		355,029,968

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2006	2005
Cash flows from operating activities:		
Net income	$ 121,783	$ 7,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,005	19,965
Amortization of debt offering costs and original issue discount	2,074	2,723
Amortization of deferred revenue	(1,172)	(1,173)
Loss on early retirement of debt		132,834
Loss on disposal of assets	1,081	1,163
Stock-based compensation	2,862	
Provision for doubtful accounts	4,989	3,386
Tax benefit from stock option exercises	(632)	7,424
Changes in operating assets and liabilities:		
Accounts receivable	(28,661)	(22,563)
Inventories	(678)	(324)
Prepaid expenses and other	(6,857)	(4,361)
Deferred income taxes	6,851	(41,723)
Accounts payable	9,456	(5,856)
Accrued interest payable	(4,641)	(4,695)
Other accrued liabilities	5,534	(14,789)
Income taxes payable	8,832	
Net cash provided by operating activities	145,826	79,123
Cash flows from investing activities:		
Change in restricted cash and cash equivalents	(47,786)	(4,481)
Capital expenditures	(294,233)	(152,164)
Net cash used in investing activities	(342,019)	(156,645)
Cash flows from financing activities:		
Dividends paid to shareholders		(21,052)
Proceeds from exercise of stock options	1,864	
Tax benefit from stock option exercises	632	
Repayments on 11% mortgage notes		(843,640)
Proceeds from 6.375% senior notes, net of discount		247,754
Proceeds from senior secured credit facility-term B		305,000
Proceeds from senior secured credit facility-revolver	92,129	
Proceeds from Phase II mall construction loan	14,000	
Proceeds from other long-term debt	75	

Repayments on Venetian Intermediate credit facility	(50,000)	
Repayments on FF&E credit facility	(1,200)	
Repayments on Interface mortgage note payable	(951)	(1,334)
Repurchase premiums incurred in connection with refinancing transactions		(93,289)
Transaction costs, initial public offering		(487)
Payments of debt offering costs		(10,717)
Net cash provided by (used in) financing activities	56,549	(417,765)
Effect of exchange rate on cash	75	
Decrease in cash and cash equivalents	(139,569)	(495,287)
Cash and cash equivalents at beginning of period	456,846	1,294,898
Cash and cash equivalents at end of period	$ 317,277	$ 799,611
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 31,905	$ 33,139
Non-cash investing and financing activities:		
Property and equipment asset acquisitions included in construction payables	$ 182,750	$ 89,501
Property and equipment acquisitions included in accounts payable	$	$ 1,000

The accompanying notes are an integral part of these condensed consolidated financial Statements

LAS VEGAS SANDS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND BUSINESS OF COMPANY

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of Las Vegas Sands Corp. and its subsidiaries (collectively the Company) for the year ended December 31, 2005. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America. In addition, certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation. In the opinion of management, all adjustments and normal recurring accruals considered necessary for a fair statement of the results for the interim period have been included. The interim results reflected in the unaudited condensed consolidated financial statements are not necessarily indicative of expected results for the full year.

Las Vegas Sands Corp. (LVSC) was incorporated in Nevada during August 2004 and completed an initial public offering of its common stock in December 2004. Immediately prior to the initial public offering LVSC acquired 100% of the capital stock of Las Vegas Sands, Inc., which was converted into a Nevada limited liability company, Las Vegas Sands, LLC (LVSLLC), in July 2005. The acquisition of LVSLLC by LVSC has been accounted for as a reorganization of entities under common control, in a manner similar to pooling-of-interests. LVSC is traded on the New York Stock Exchange under the symbol LVS.

Las Vegas Properties

The Company owns and operates The Venetian Resort Hotel Casino (The Venetian), a Renaissance Venice-themed resort situated on the Las Vegas Strip (the Strip). The Venetian is located across from The Mirage and the Treasure Island Hotel and Casino and next to the Wynn Las Vegas Resort. The Venetian includes the first all-suites hotel on the Strip with 4,027 suites; a gaming facility of approximately 116,000 square feet; an enclosed retail, dining and entertainment complex of approximately 440,000 net leasable square feet (the Grand Canal Shops or the Mall); which was sold to a third party in 2004, a meeting and conference facility of approximately 1.1 million square feet; and an expo and convention center of approximately 1.2 million square feet (The Sands Expo Center). The Company has commenced construction work on the site of The Palazzo Resort Hotel Casino (The Palazzo), a second resort similar in size to The Venetian, which is situated on a 14 acre site next to The Venetian and The Sands Expo Center and next to the Wynn Las Vegas Resort. The Palazzo is expected to consist of an all-suites, 50-floor luxury hotel tower with approximately 3,025 suites, a gaming facility of approximately 105,000 square feet and an enclosed shopping, dining and entertainment complex of approximately 450,000 square feet, which the Company has contracted to sell to a third party.

Macao Projects

The Company also owns and operates The Sands Macao, a Las Vegas-style casino in Macao, China, which was opened on May 18, 2004. In addition to The Sands Macao, the Company is also constructing The Venetian Macao Resort Hotel Casino (The Venetian Macao), an approximately 3,000 all-suites hotel, casino, and convention center complex, with a Venetian-style theme similar to that of its Las Vegas property. Under its gaming subconcession in Macao, the Company was obligated to develop and open The Venetian Macao by June 2006 and a convention center by December 2006, and invest, or cause to be invested, at least 4.4 billion patacas (approximately $550.2 million at exchange rates in effect on March 31, 2006) in various development projects in Macao by June 2009. The Company has spent more than the required minimum amount. In March 2006, the Company received an extension of the June and December 2006 construction deadlines for The Venetian Macao and the convention center to December 2007. The Company currently expects to open The Venetian Macao in mid-2007. If it fails to meet the December 2007 deadline, the Company could lose its right to continue to operate The Sands Macao or any other facilities developed under its Macao gaming subconcession and its investment to date in construction of The Venetian Macao could be lost.

LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company commenced construction of The Venetian Macao prior to obtaining a land concession from the Macao government which holds title to the land. The Company has applied to the Macao government for a land concession for a portion of the west side of the Cotai Strip™, including the site of The Venetian Macao. The land concession will require the Company to pay certain premiums and rent. The Company is in negotiation with the Macao government over the cost of the land concession. The Company believes it will be successful in obtaining the land concession. However, in the event the Company is unable to successfully conclude its negotiations with the Macao government with regard to the land underlying The Venetian Macao, the Company could lose all or a substantial part of its investment in the creation of the land and in constructing The Venetian Macao.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No. 123(R), Share-Based Payment , which supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees . This statement requires compensation costs related to stock-based payment transactions to be recognized in financial statements based on estimated fair values. This statement also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. The provisions of this statement are effective as of the first annual reporting period that begins after January 1, 2006. This statement requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). This cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement also addresses the accounting for the tax effects of stock-based compensation awards. The Company adopted this standard as of January 1, 2006 using the modified prospective application transition method. Under the modified prospective application transition method, the Company will expense the cost of stock-based compensation awards issued after January 1, 2006 based on their fair values. Additionally, the Company will recognize compensation cost for the portion of awards outstanding on January 1, 2006, based on their previously calculated fair values, for which the requisite service has not been rendered as the requisite service is to be rendered on or after January 1, 2006. During the three months ended March 31, 2006, the Company recorded $2.9 million of stock-based compensation expense. Previous periods have not been restated. See Note 5 Stock-Based Employee Compensation for additional information.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3, which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle, as well as to changes required by an accounting pronouncement if the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption on January 1, 2006 of SFAS No. 154 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

NOTE 2 STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

Changes in stockholders equity for the three months ended March 31, 2006 were as follows (in thousands):

Balance at December 31, 2005	$ 1,609,538
Net income	121,783
Stock-based compensation	3,299
Proceeds from exercise of stock options	1,864
Tax benefit from exercise of stock options	632
Change in accumulated other comprehensive income	(288)

Balance at March 31, 2006	$ 1,736,828

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LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The weighted average number of common and common equivalent shares used in the calculation of basic and diluted earnings per share consisted of the following:

	Three Months Ended March 31,	
	2006	**2005**
Weighted-average common shares outstanding (used in the calculation of basic earnings per share)	354,199,253	354,160,692
Potential dilution from stock options and restricted stock	393,344	869,276
Weighted-average common and common equivalent shares (used in the calculations of diluted earnings per share)	354,592,597	355,029,968

For the three months ended March 31, 2006, outstanding options to purchase 2,223,714 shares of common stock were not included in the calculation of diluted earnings per share because their effect was antidilutive.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	March 31, 2006	**December 31, 2005**
Land and land improvements	$ 201,841	$ 202,285
Building and improvements	1,475,533	1,454,462
Equipment, furniture, fixtures and leasehold improvements	357,560	351,219
Construction in progress	1,242,459	957,752
	3,277,393	2,965,718
Less: accumulated depreciation and amortization	(389,980)	(365,250)
	$ 2,887,413	$ 2,600,468

During the three months ended March 31, 2006 and 2005, the Company capitalized interest expense of $8.3 million and $4.1 million, respectively.

LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	March 31, 2006	December 31, 2005
Indebtedness of the Company and its Subsidiaries other than the Macao Subsidiaries:		
Senior Secured Credit Facility Term B	$ 970,000	$ 970,000
Senior Secured Credit Facility Term B delayed	200,000	200,000
Senior Secured Credit Facility Revolving Facility	123,129	31,000
6.375% Senior Notes	247,982	247,925
Interface Mortgage Loan	94,650	95,601
Phase II Mall Construction Loan	42,500	28,500
FF&E Credit Facility and other	9,075	10,200
Indebtedness of the Macao Subsidiaries:		
Venetian Intermediate Credit Facility		50,000
	1,687,336	1,633,226
Less: current maturities	(7,490)	(7,325)
Total long-term debt	$ 1,679,846	$ 1,625,901

NOTE 5 STOCK-BASED EMPLOYEE COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized over the employee s requisite service period (generally the vesting period of the equity grant). Prior to January 1, 2006, the Company accounted for stock-based compensation to employees in accordance with APB No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company also followed the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation , as amended by SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure . The Company elected to adopt the modified prospective application transition method as provided by SFAS No. 123R and, accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of recording stock-based compensation.

As of March 31, 2006, the Company has two stock-based compensation plans. The board of directors has agreed not to grant any additional stock options under one of these plans and there were no options outstanding under it during the three months ended March 31, 2006. The second plan is described below. The compensation cost that has been charged against income for the plans was $2.9 million for the three months ended March 31, 2006, which is comprised of $2.6 million from stock options and $0.3 million from restricted stock. The total income tax benefit recognized in the condensed consolidated statement of operations for stock-based compensation arrangements was $0.7 million. Compensation cost capitalized as part of property and equipment was $0.4 million for the three months ended March 31, 2006.

Las Vegas Sands Corp. 2004 Equity Award Plan

The purpose of the 2004 Plan is to give the Company a competitive edge in attracting, retaining, and motivating employees, directors and consultants and to provide the Company with a stock plan providing incentives directly related to increases in its stockholder value.

Administration. The Company s compensation committee administers the 2004 Plan. Except in the case of awards to non-employee directors which are administered by the Company s board of directors, the compensation committee has the authority to determine the terms and conditions of any agreements

LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

evidencing any awards granted under the 2004 Plan, and to adopt, alter and repeal rules, guidelines and practices relating to the 2004 Plan. The compensation committee has full discretion to administer and interpret the 2004 Plan, to adopt such rules, regulations, and procedures as it deems necessary or advisable and to determine, among other things, the time or times at which the awards may be exercised and whether and under what circumstances an award may be exercised. The compensation committee has formed a sub-committee to administer those portions of the 2004 Plan that require administration by directors meeting certain independence standards.

Eligibility. Any of the Company s subsidiaries or affiliates employees, directors, officers or consultants are eligible for awards under the 2004 Plan. The compensation committee has the sole and complete authority to determine who will be granted an award under the 2004 Plan (except in the case of awards to non-employee directors, which are made by the board of directors).

Number of Shares Authorized. The 2004 Plan provides for an aggregate of 26,344,000 shares of the Company s common stock to be available for awards. No participant may be granted awards of options and stock appreciation rights with respect to more than 3,000,000 shares of common stock in any one year. If any award is forfeited, or if any option terminates, expires, or lapses without being exercised, shares of the Company s common stock subject to such award will again be available for future grant. If there is any change in the Company s corporate capitalization, the compensation committee in its sole discretion may make substitutions or adjustments to the number of shares reserved for issuance under the 2004 Plan, the number of shares covered by awards then outstanding under the 2004 Plan, the limitations on awards under the 2004 Plan, the exercise price of outstanding options and such other equitable substitution or adjustments as it may determine appropriate.

The 2004 Plan has a term of ten years and no further awards may be granted after the expiration of the term.

Awards Available for Grant. The compensation committee may grant awards of nonqualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, stock bonus awards, performance compensation awards or any combination of the foregoing. As of March 31, 2006, there were 22,035,097 shares available for grant under the 2004 Plan.

Stock option awards are granted with an exercise price equal to the market price of the Company s stock at the date of grant. The stock options generally vest based on four years of continuous service and have 10-year contractual terms. Restricted stock awards generally vest over three years. Compensation cost for all stock option grants, which all have graded vesting, is net of estimated forfeitures and is recognized on a straight-line basis over the awards respective requisite service periods. The Company estimates the fair value of stock options using the Black-Scholes option-pricing model. Expected volatilities are based on the historical volatilities from a selection of companies from the Company s peer group due to the Company s lack of historical information. The Company used the simplified method for estimating expected option life, as the options qualify as plain-vanilla options. The risk-free interest rate for periods equal to the expected term of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company s stock options granted during the three months ended March 31, 2006 and 2005.

LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Weighted average volatility	31.61%	35.29%
Expected term (in years)	6.0	6.0
Risk-free rate	4.40%	3.86%
Expected dividends		

The weighted average grant date fair value of 2,184,361 options granted during the three months ended March 31, 2006 was $17.36 per share and the weighted average grant date fair value of 22,820 options granted during the three months ended March 31, 2005 was $19.49 per share. The total intrinsic value of options exercised during the three months ended March 31, 2006 was $1.6 million. No options were exercised during the three months ended March 31, 2005.

The Company did not recognize compensation expense for employee share-based awards for the three months ended March 31, 2005, when the exercise price of the Company s employee stock awards equaled the market price of the underlying stock on the date of grant.

The Company had previously adopted the provisions of SFAS No. 123, as amended by SFAS No. 148, for disclosure purposes only. Had the Company accounted for the plan under the fair value method allowed by SFAS No. 123, the Company s net income, and earnings per share would have been adjusted to the following pro forma amounts (dollars in thousands, except per share data):

	Three Months Ended March 31, 2005
Net income, as reported	$ 7,112
Less: Stock-based employee compensation expense determined under the Black Scholes option-pricing model, net of tax	(806)