

LAS VEGAS SANDS CORP

Form 10-Q

August 09, 2006

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

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

For the quarterly period ended June 30, 2006

○ 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

(State or other jurisdiction of incorporation or organization)

27-0099920

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

**3355 Las Vegas Boulevard South
Las Vegas, Nevada**

(Address of principal executive offices)

89109

(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. Yes No

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 Accelerated filer Non-accelerated filer

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

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

LAS VEGAS SANDS CORP.

Class	Outstanding at August 1, 2006
Common Stock (\$0.001 par value)	354,365,124 shares

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Table of Contents**Item 1 Condensed Consolidated Financial Statements****LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets**

	June 30, 2006	December 31, 2005
	(In thousands, except share data)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 281,999	\$ 456,846
Restricted cash	340,203	71,717
Accounts receivable, net	86,939	84,778
Inventories	10,820	9,967
Deferred income taxes	12,123	7,946
Prepaid income taxes	16,800	
Prepaid expenses and other	28,464	13,452
Total current assets	777,348	644,706
Property and equipment, net	3,347,330	2,600,468
Deferred financing costs, net	67,509	30,973
Restricted cash	1,336,781	571,143
Deferred income taxes		11,332
Other assets, net	211,873	21,117
Total assets	\$ 5,740,841	\$ 3,879,739
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 45,683	\$ 34,803
Construction payables	231,702	163,932
Accrued interest payable	7,317	7,918
Other accrued liabilities	254,518	246,390
Current maturities of long-term debt	6,138	7,325
Total current liabilities	545,358	460,368
Other long-term liabilities	12,977	9,804
Deferred income taxes	3,777	
Deferred gain on sale of The Grand Canal Shops mall	66,396	68,129
Deferred rent from The Grand Canal Shops mall transaction	105,387	105,999
Long-term debt	3,156,799	1,625,901
Total liabilities	3,890,694	2,270,201
Commitments and contingencies (Note 6)		
Stockholders' equity:		
	354	354

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Common stock, \$.001 par value, 1,000,000,000 shares authorized, 354,365,124 and 354,179,580 shares issued and outstanding		
Capital in excess of par value	974,921	964,660
Deferred compensation		(150)
Accumulated other comprehensive income	812	1,726
Retained earnings	874,060	642,948
	1,850,147	1,609,538
Total liabilities and stockholders equity	\$ 5,740,841	\$ 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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
(In thousands, except share and per share data)				
(Unaudited)				
Revenues:				
Casino	\$ 378,462	\$ 274,808	\$ 753,844	\$ 540,594
Rooms	89,654	83,983	180,792	170,060
Food and beverage	44,023	34,698	95,839	78,187
Convention, retail and other	29,276	24,354	64,281	52,808
	541,415	417,843	1,094,756	841,649
Less-promotional allowances	(24,408)	(19,022)	(47,385)	(39,034)
Net revenues	517,007	398,821	1,047,371	802,615
Operating expenses:				
Casino	217,244	146,546	422,586	278,499
Rooms	21,996	20,227	43,748	41,342
Food and beverage	22,813	17,879	46,871	38,844
Convention, retail and other	15,728	13,723	32,122	28,099
Provision for doubtful accounts	3,321	782	8,310	4,168
General and administrative	57,337	48,214	112,152	93,987
Corporate expense	12,251	6,620	25,205	17,502
Rental expense	3,803	3,682	7,510	7,387
Pre-opening expense	4,354	504	6,573	504
Development expense	7,861	5,562	17,029	10,737
Depreciation and amortization	24,428	21,097	49,433	41,062
(Gain) loss on disposal of assets	456	(158)	1,537	1,005
	391,592	284,678	773,076	563,136
Operating income	125,415	114,143	274,295	239,479
Other income (expense):				
Interest income	15,018	7,133	25,232	14,527
Interest expense, net of amounts capitalized	(23,685)	(17,969)	(45,100)	(45,052)
Other income (expense)	(14)	(1,291)	150	(1,291)
Loss on early retirement of debt		(4,166)		(137,000)
Income before income taxes	116,734	97,850	254,577	70,663
Benefit (provision) for income taxes	(7,405)	(11,421)	(23,465)	22,878
Net income	\$ 109,329	\$ 86,429	\$ 231,112	\$ 93,541

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Basic earnings per share	\$	0.31	\$	0.24	\$	0.65	\$	0.26
Diluted earnings per share	\$	0.31	\$	0.24	\$	0.65	\$	0.26
Weighted average shares outstanding:								
Basic		354,255,635		354,160,692		354,227,600		354,160,692
Diluted		355,259,487		354,795,833		354,803,220		354,853,970

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

	Six Months Ended June 30,	
	2006	2005
	(Dollars in thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 231,112	\$ 93,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,433	41,062
Amortization of deferred financing costs and original issue discount	4,634	5,010
Amortization of deferred gain and rent	(2,345)	(2,346)
Loss on early retirement of debt		137,000
Loss on disposal of assets	1,537	1,005
Stock-based compensation	5,724	
Provision for doubtful accounts	8,310	4,168
Tax benefit from stock option exercises	(632)	7,424
Deferred income taxes	10,932	(30,302)
Changes in operating assets and liabilities:		
Accounts receivable	(10,471)	(13,972)
Inventories	(853)	(759)
Prepaid income taxes	(16,168)	
Prepaid expenses and other	(205,612)	(3,355)
Accounts payable	10,880	20,638
Accrued interest payable	(601)	(2,337)
Other accrued liabilities	11,301	26,750
Net cash provided by operating activities	97,181	283,527
Cash flows from investing activities:		
Change in restricted cash	(1,034,881)	(5,181)
Capital expenditures	(730,475)	(373,565)
Net cash used in investing activities	(1,765,356)	(378,746)
Cash flows from financing activities:		
Dividends paid to shareholders		(21,052)
Proceeds from exercise of stock options	3,180	
Tax benefit from stock option exercises	632	
Repayments on 11% mortgage notes		(843,640)
Proceeds from 6.375% senior notes, net of discount		247,722
Proceeds from senior secured credit facility-term B		305,000
Proceeds from Macao credit facility	1,325,000	
Proceeds from senior secured credit facility-revolver	254,129	
Proceeds from phase II mall construction loan	30,000	10,500

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Proceeds from other long-term debt	75	
Repayments on Venetian Intermediate credit facility	(50,000)	
Repayment on senior secured credit facility-revolver	(25,000)	
Repayments on Interface mortgage note payable	(2,807)	(2,448)
Repayments on FF&E credit facility	(1,800)	(600)
Repayments on Venetian Macao senior secured notes tranche A		(75,000)
Repayments on Venetian Macao senior secured notes tranche B		(45,000)
Repurchase premiums incurred in connection with refinancing transactions		(113,311)
Transaction costs, initial public offering		(487)
Payments of deferred financing costs	(41,056)	(11,169)
Net cash provided by (used in) financing activities	1,492,353	(549,485)
Effect of exchange rate on cash	975	
Decrease in cash and cash equivalents	(174,847)	(644,704)
Cash and cash equivalents at beginning of period	456,846	1,294,898
Cash and cash equivalents at end of period	\$ 281,999	\$ 650,194
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 69,725	\$ 51,494
Cash payments for taxes	\$ 28,000	\$
Non-cash investing and financing activities:		
Property and equipment acquisitions included in construction payables	\$ 231,702	\$ 163,932

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

Table of Contents**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 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 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. 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 the Company fails to meet the December 2007 deadline and that deadline is not extended further, 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. See Note 7 Segment Information, for the total assets in Macao.

Table of Contents**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 currently in negotiations with the Macao government over the cost of the land concession and believes it will be successful in obtaining the land concession. The Company expects to have the negotiations complete in the latter part of the third quarter or early part of the fourth quarter of 2006, at which point the Company will be required to pay the negotiated amount. The land premium will be amortized over an extended period of time. The initial term of the lease will be 25 years with unlimited 10-year renewals at the Company's option. The Company expects to use the funds from the new Macao credit facility (see Note 4) to make the portion of the land concession payments that will be due upon receipt of the provisional land grant and will finance the remaining portion through financing permitted by the Macao government and certain payment guarantees to be issued by commercial banks. Under the credit facility, the Company is required to secure the concession in order to fully draw against the facility. If the Company is unable to complete the negotiations within a specified period of time, it will not be able to draw any further funds from the Macao credit facility (see Note 4) in order to fund construction activities and it will have to seek additional financing. 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 and would not be able to open and operate the facility as planned. See Note 7 Segment Information, for the total assets in Macao.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No. 123R, 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. This statement requires companies 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 is being 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 is expensing the cost of stock-based compensation awards issued after January 1, 2006 based on their fair values. Additionally, the Company is recognizing 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 and six months ended June 30, 2006, the Company recorded \$2.9 million and \$5.7 million respectively, of stock-based compensation expense. Previous periods have not been restated. See Note 5 Stock-Based Employee Compensation for additional information.

In July 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . FIN No. 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN No. 48 will require entities to assess the likelihood that uncertain tax positions will be accepted by the applicable taxing authority and then measure the amount of

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LAS VEGAS SANDS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

benefit to be recognized for these purposes which are considered greater than 50% likely to be sustained. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on the condensed consolidated financial statements.

NOTE 2 STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

Changes in stockholders equity for the six months ended June 30, 2006 were as follows (in thousands):